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**ECONOMIC SURVEY
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Notes and explanation of symbols

The following symbols have been used in the tables in this Survey:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amounts is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.

References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual growth rates or rates of variation mean cumulative annual rates.

Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

Part one

TRENDS IN THE LATIN AMERICAN ECONOMY IN 1981

TRENDS IN THE LATIN AMERICAN ECONOMY IN 1981

Despite Latin America's impressive growth since the end of World War II, its development is still strongly conditioned by events outside the region. Indeed, the trade and capital flows which tie it to the industrialized countries have grown in relative importance since the oil crisis of 1973, so that it is difficult for the region to deviate for long from basic trends in the international economy.

Yet, one of the most striking features of the 1970s was that the Latin American economies—even the non-oil-exporting ones—proved able to maintain vigorous growth despite the oil price hikes of 1973 and 1979 and the centre's subsequent recession in 1974/1975 and slowdown in 1980. Somehow the region seemed to be successfully defying its external conditioning. In 1981, however, the force of external events was reaffirmed, and the Latin American economies were brought into line once again, with growth decelerating sharply from 5.9% in 1980 to 1.7%, the region's slowest growth rate in 40 years, and not very much different from that of the OECD countries. Thus, in 1981 the evolution of the Latin American economies was again largely governed by economic events and forces from outside the region and was therefore more closely patterned on the evolution of the centre, to which it is inexplicably tied. In view of this growing interdependence, it seems appropriate to review briefly the major developments in the world economy which, in 1981, conditioned more forcefully than at any time in the recent past the economic evolution of Latin America.

I. THE INTERNATIONAL SETTING

1. Main trends

Four salient facts stand out in the evolution of the international economy in 1981: (a) the continued slow growth; (b) the decline in the value of world trade for the first time in almost 25 years; (c) the extraordinarily high real rates of interest: the highest since the Great Depression; and (d) the appreciation of over 12% in the US dollar. Each of these can be shown to be a consequence, at least in the short run, of the restrictive demand policies adopted in several of the principal industrial countries, which gave top priority in 1981 to lowering the high, and stubbornly persistent inflation besetting them. Taken together these features account for the poor performance of the international economy in 1981.

(a) *The widespread slowdown of economic growth*

The growth of world output decelerated once again in 1981, for the third consecutive year. Preliminary estimates indicate that GDP grew by only 1.2%, a rate well below the 4.5% averaged over the last 20 years. Indeed, this was the second lowest growth rate since 1958, only the recession of 1975 having affected production more adversely during the period.

What made 1981 particularly serious, however, is that unlike what happened in 1974-1975, when the recession especially affected the developed countries, in 1981 the slowdown was widespread, affecting market as well as centrally planned economies, developed as well as

developing countries (see table 1). Slow growth persisted in the market economies, but at a rate above that of the recession of 1974-1975. The centrally planned economies, whose evolution had heretofore been quite unrelated to that of the rest of the world, also experienced markedly low growth. Yet the sharpest deceleration in 1981 took place precisely in the growth rates of the developing countries. Output actually fell 10% in the capital surplus developing countries,¹ though this was largely the result of the war between Iraq and Iran. More significantly, growth in the non-oil-exporting developing countries slowed from an average of over 4% in 1979/1980 to only a over 1% in 1981, implying a sizeable fall in per capita income. Only the developing countries of South and East Asia deviated from these trends, registering a remarkable growth rate of over 6% which far outdistanced not only other developing regions but the developed economies as well (see table 2).

Table 1
WORLD: GROSS DOMESTIC PRODUCT
(Growth rates)

	1971- 1973	1976- 1978	1974	1975	1979	1980	1981 ^a
World	5.5	4.8	2.0	0.6	3.8	2.1	1.2
Developed market economies ^b	5.0	4.4	0.2	-1.2	3.7	1.5	1.2
Developing countries ^c	6.2	5.3	5.8	3.6	4.4	2.9	0.6
Capital surplus countries ^d	...	4.3	...	...	4.0	-7.4	-10.1
Other energy exporters	...	5.9	...	...	6.5	6.7	5.4
Energy importers	...	5.4	...	...	4.3	4.1	1.4
Centrally planned economies ^e	6.6	5.5	6.3	5.4	3.	3.5	1.9

Source: United Nations Department of International Economic and Social Affairs, on the basis of official national and international sources.

^a Preliminary figures.

^b North America, southern and western Europe (excluding Cyprus, Malta and Yugoslavia), Australia, Japan, New Zealand and South Africa.

^c Latin America and the Caribbean area, Africa (other than South Africa), Asia (excluding Japan) and Cyprus, Malta and Yugoslavia.

^d Brunei, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia and United Arab Emirates.

^e Data measured by net material product concept. Countries comprise China, Eastern Europe and Union of Soviet Socialist Republics.

Table 2
GROSS DOMESTIC PRODUCT OF DEVELOPING COUNTRIES
(Growth rates)

	1976- 1978	1979	1980	1981 ^a
Africa	6.0	6.0	4.7	1.4
South and East Asia	6.8	3.1	4.8	6.3
Western Asia	2.8	1.5	-6.3	-7.9
Western Hemisphere	5.0	6.5	5.9	1.2
Memorandum items:				
Energy exporter	5.0	4.7	1.4	-0.5
Energy importers	5.4	4.2	4.1	1.4

Source: United Nations, Department of International Economic and social Affairs, on the basis of official national and international sources, and CEPAL, on the basis of official figures.

^a Preliminary figures.

¹ Brunei, Iran, Iraq, Kuwait, Jamahiriya Arab Libya, Qatar, South Arabia and the United Arab Emirates.

Table 3

WORLD: MERCHANDISE TRADE BY AREAS^a

	Exports FOB					Imports CIF					Trade balance ^b	
	Billions of dollars		Annual rates of change			Billions of dollars		Annual rates of change			Billions of dollars	
	1980	1981 ^a	1979	1980	1981 ^a	1980	1981 ^a	1979	1980	1981 ^a	1980	1981 ^a
World	2 021	1 998	25	21	-1	2 087	2 074	25	21	-1		
Industrialized countries	1 233	1 215	22	18	-1	1 382	1 315	28	20	-5	-149	-100
OPEC ^c	296	270	45	39	-9	135	155	7	35	15	161	115
Other developing countries	271	293	27	25	8	350	374	25	26	7	-79	-81
Centrally planned economies	176	179	21	17	2	173	178	15	15	3	3	1

Source: GATT, Press Release N° 1313, 23 March 1982, and IMF, *International Financial Statistics*, (several issues).

^aFigures for 1981 are based on incomplete returns and are subject to revision.

^bThe trade balance for the world does not add up to zero, as it should, because of errors and omissions in the different accounts.

^cAlgeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

^dFOB.

(b) *The decline in world trade*

World trade, which had been playing a dynamic role in growth over the previous 30 years by expanding at a significantly faster rate than overall output, actually declined by 1% in 1981. This was the first such decline in the current value of trade since 1958, and marked an especially sharp deceleration from the previous two years' growth rates of over 20% per year. As in the case of the slower GDP growth, the deceleration of trade was also general, though the value of the developing countries' trade, and especially that of the non-oil-exporting developing economies did nevertheless manage to expand (see table 3).

The decline in world trade reflected the stagnation in the volume of exports (down from 1.5% in 1980) and a decline in the dollar value of most export items, with the notable exception of oil. The slowdown in the volume of trade was mainly due to the large (14%) drop in the volume of petroleum exports, which, coming after an earlier decline of 12% in 1980, left the quantum of petroleum exports at its lowest level since 1970. The pronounced downturn in the rate of growth of economic activity in the industrialized countries, coupled with the progressive spread of conservation measures after the second oil price hike, were the main causes of this reduction in the volume of oil exports. If crude oil is excluded, however, the volume of world trade grew by 2.5% in 1981, although this was still markedly lower than the 4.5% increase in 1980.

As for export prices, a combined index for the basic commodities (except petroleum) exported by developing countries registered a decline of nearly 16%, as against increases of the order of 15% in each of the previous two years (see table 4). Moreover, this decline was quite general, covering all basic commodities. Indeed, even the prices of the manufactured exports of developed countries decreased, by some 5%.

This generalized decline in export prices (except those of petroleum, which increased by 10-15% in 1981), was largely due to the 13% appreciation of the US dollar against the world's major currencies. This meant that in the main it was the terms of trade only of the oil-exporting countries and of the United States which improved in the course of 1981. The terms of trade of the rest of the world declined, especially those of the non-oil-exporting developing countries, which

fell by 10-15% in 1981. This decline in the terms of trade of the non-oil-exporting developing economies was comparable in severity only to that experienced in 1974-1975 (see figure 1).

Nevertheless, the export volume of all but the OPEC countries increased in 1981 by 2.5% in the case of the developed countries and 3-4% in that of the non-oil-exporting developing countries, with Latin America proving especially dynamic under the circumstances. This was in marked contrast to the experience of 1974-1975, when not only did the terms of trade of the non-oil-exporting countries worsen but the quantum of their exports stagnated or declined too. Thus, unlike 1974-1975, the severity of the sharp decline in export prices in 1981 was attenuated by this expansion in the volume of the non-petroleum exports.

(c) *High real interest rates*

In 1981 real interest rates in international markets (LIBOR) reached unprecedented levels, of the order of 6% on average for the year. It is true that nominal interest rates had been creeping up systematically over the last years and had consistently exceeded 10% since 1979 (see table 5), but

Table 4

DEVELOPING COUNTRIES: MARKET PRICES OF PRINCIPAL COMMODITY EXPORTS^a

(Annual rates of change)

	1970- 1977	1978	1979	1980	1981
Food and tropical beverages	19.3	-18.1	8.7	21.2	-19.7
Vegetable oilseeds and oils	10.3	10.3	15.6	-14.9	-3.2
Agricultural raw materials	12.9	11.7	22.6	11.2	-13.0
Minerals, ores and metals	6.4	6.7	28.8	13.3	-12.3
Combined index ^b	14.4	-6.7	15.3	14.8	-15.6

Source: UNCTAD, *Monthly Commodity Price Bulletin*, vol. II, N° 1, January 1982, and CEPAL calculations.

^aFree market prices (excluding sales under long-term contracts or at preferential prices), in current dollars.

^bWeighted according to the relative importance of each group in the value of exports of developing countries in 1975-1977.

Table 5

NOMINAL INTEREST RATES IN SELECTED INDUSTRIALIZED COUNTRIES AND LIBOR

(Annual averages)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Federal Republic of Germany ^a	10.2	8.9	4.4	3.9	4.1	3.4	4.9	9.1	11.3
France ^a	8.9	12.9	7.9	8.6	9.1	8.0	9.0	11.9	15.3
Japan ^a	7.2	12.5	10.7	7.0	5.7	4.4	5.9	10.9	7.4
United Kingdom ^b	9.3	11.4	10.2	11.1	7.7	8.5	13.0	15.1	13.0
United States ^c	8.7	10.5	5.8	5.1	5.5	7.9	11.2	13.4	16.4
LIBOR ^d	9.2	11.0	7.0	5.6	6.0	8.7	12.0	14.4	17.0

Source: IMF, *International Financial Statistics*, (various issues).

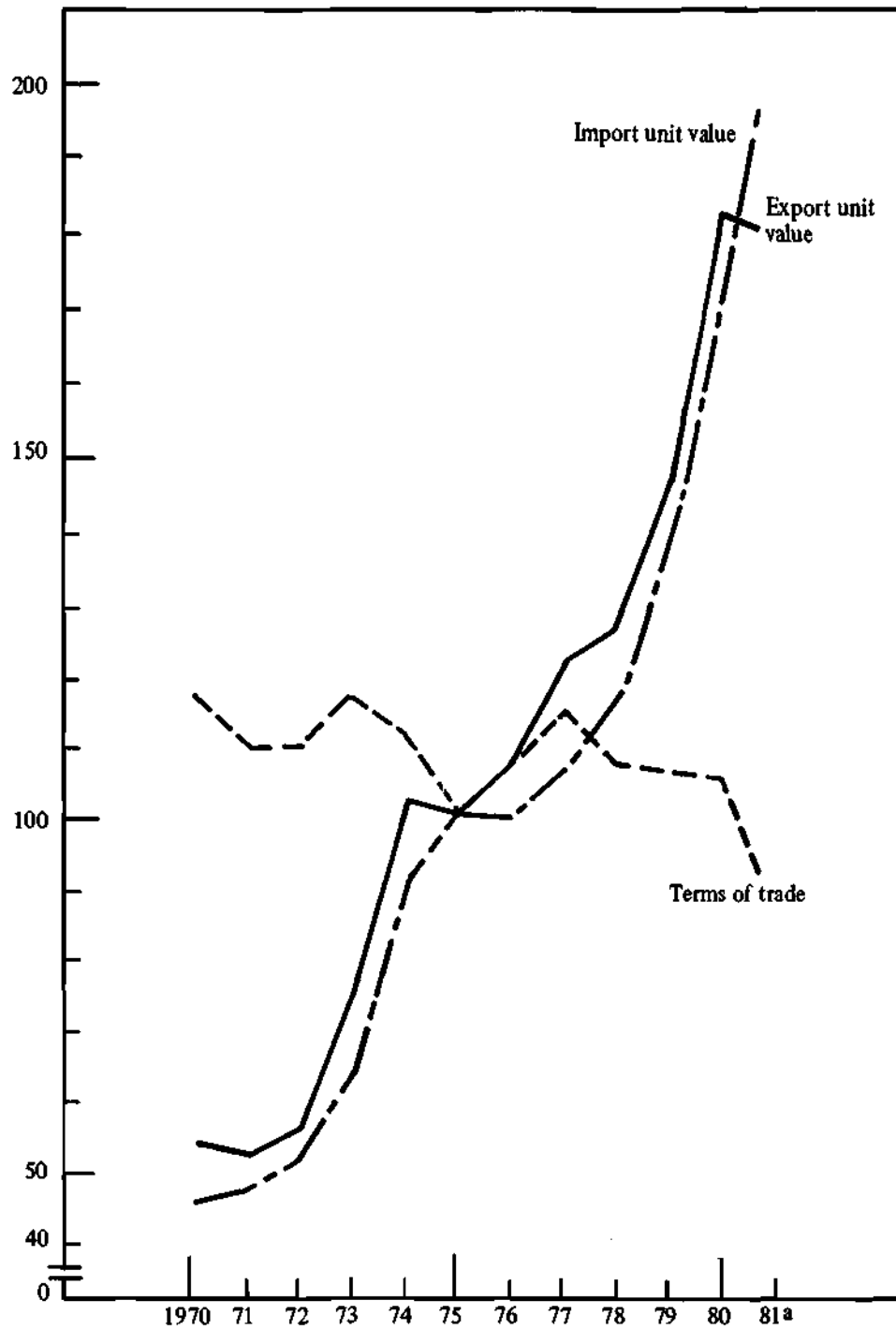
^aCall money rate.

^bTreasury funds rate.

^cFederal funds rate.

^dLondon Eurodollar rate for three-month deposits.

Figure 1
TERMS OF TRADE OF NON-OIL DEVELOPING COUNTRIES
(1975 = 100)



Source: IMF, *International Financial Statistics* (various issues).

^aFirst quarter.

then so had the rate of inflation. Thus, in real terms the interest rate had not been above 1-2% per year during the decade, and indeed, in several of these years it had been zero or negative. In 1981, however, because of the general pursuit in the major industrial countries of restrictive policies aimed at decelerating price increases, the rate of inflation began to decelerate, from 12.9% in 1980 to 10.8% in 1981 (see table 6), whereas LIBOR continued to rise, from 14.4% in 1980 to 17% in 1981. These opposite trends of nominal interest rates and inflation thereby raised real interest rates to double their historical average: a level not experienced in the countries of the OECD (suggestively enough) since the Great Depression.

The unintentional consequences of these stabilization policies and the resulting high interest rates were stagnation in the central countries, especially in sectors particularly sensitive to the interest rate such as construction and consumer durables, and a consequent slowdown in the centre's demand for the developing countries' exports. These high interest rates hurt the developing countries in three other ways as well; however: (1) the industrial countries' desire to maintain large commodity inventories diminished because of the high interest rates and the decline of inflationary expectations, thus further depressing the prices and volumes of the periphery's exports, especially those (such as lead, copper and rubber) which are important inputs to the interest-sensitive depressed sectors of the centre; (2) greater net capital inflows to the periphery were discouraged; and (3) interest charges on past debt incurred at variable interest rates increased substantially.

Given that in 1981 the developing countries' indebtedness (exclusive of short-run debt) was of the order of US\$ 500 billion (see table 7) and interest payments alone equalled some 80% of their overall trade deficit, it is clear that the developing countries' balance of payments was quite sensitive to interest rate increases. Furthermore, this is all the more serious when, as in 1981, the price of their exports not only did not rise in step with world inflation, but actually declined. Thus, in sharp contrast with 1974-1975, when the terms of trade of the non-oil-exporting developing

Table 6

INDUSTRIALIZED COUNTRIES: CONSUMER PRICES

(Percentage annual average changes)

	1962- 1972	1976- 1978	1979 1973	1980 1974	1981 ^a 1975
Total OECD	3.7	8.5	9.8 7.8 ^b	12.5 13.4 ^b	10.8 11.3 ^b
Federal Republic of Germany	3.2	3.6	4.1 6.9 ^b	5.5 7.0 ^b	6.5 6.0 ^b
France	4.4	9.4	10.8 7.3 ^b	13.6 13.7 ^b	13.9 11.8 ^b
Japan	5.8	7.0	3.6 11.7 ^b	8.0 24.5 ^b	3.9 11.8 ^b
United Kingdom	4.9	13.5	13.4 9.2 ^b	18.0 16.0 ^b	11.4 24.2 ^b
United States	3.1	6.7	11.3 6.2 ^b	13.5 11.0 ^b	11.0 9.1 ^b

Source: OECD, *Economic Outlook*, N° 30, December, 1981.

^a Preliminary figures.

^b Correspond to the years 1973, 1974 and 1975.

Table 7

**DEVELOPING COUNTRIES: MEDIUM-AND LONG-TERM
DEBT SERVICE PAYMENTS^a**

(Billions of dollars)

	1973	1975	1976	1977	1978	1979	1980	1981 ^b
Interest payments	5.2	9.0	10.0	12.3	17.2	24.2	34.0	48
Official sources	1.7	2.4	2.8	3.6	4.5	5.1	6.2	7
Private sources	3.5	6.6	7.2	8.7	12.7	19.1	27.8	41
Amortization payments	12.2	16.8	19.3	25.3	37.4	44.0	44.5	
Official sources	2.8	3.5	3.7	4.4	5.2	6.4	7.9	
Private sources	9.4	13.3	15.6	20.9	32.2	37.6	36.6	
Debt service payments	17.4	25.8	29.3	37.6	54.6	68.2	78.5	
Official sources	4.5	5.9	6.5	8.0	9.7	11.5	14.1	
Private sources	12.9	19.9	22.8	2.6	44.9	56.7	64.4	
Memorandum items:								
Disbursed outstanding debt	117.7	174.7	212.0	262.7	327.4	372.8	426.1	520
Official sources	55.7	76.2	88.4	104.7	124.0	137.1	156.7	
Private sources	62.0	97.9	123.6	158.0	203.4	235.7	269.4	

Source: World Bank, *World Debt Tables*, December 1981.

^aFigures include the public and state-guaranteed debt of 98 developing economies (Afghanistan, Iran and Iraq are excluded), plus estimates of private non-guaranteed debt. No data for the People's Republic of China are available, but data for Taiwan are included.

^bCEPAL, estimate on the basis of the net capital flow in 1981 over 1980, shown in table 11.

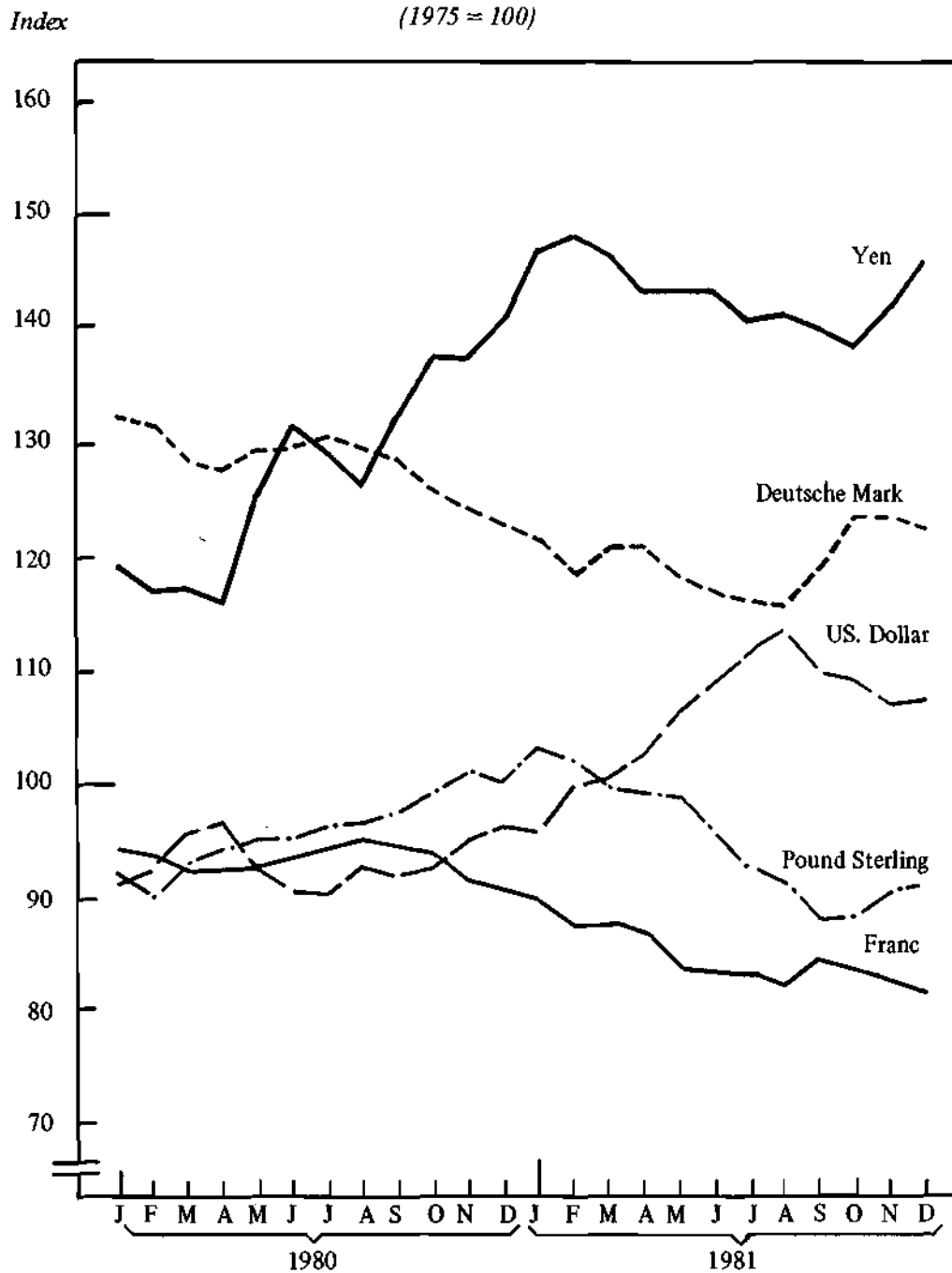
nations fell but real interest rates were low or negative, in 1981 the decline in the terms of trade was exacerbated by the surge in real interest rates.

(d) *The appreciation of the dollar*

From its low in the third quarter of 1980 to its peak in the third quarter of 1981, the US dollar appreciated almost 21% (see figure 2). This represented an average appreciation of 12.6% for the whole of 1981 in respect of 1980 against a weighted composite of the 17 major currencies of the world. Thus 1981 saw a dramatic reversal of the previous 10 years' steady depreciation of the dollar, whose value had eroded by over 20% since 1970. This sharp strengthening of the US dollar reflected not so much a sudden improvement in the current account surplus of the United States as the sharp rise in nominal (and real) United States interest rates registered as of mid-1980 (see figure 3). These rates were above those of all other major currencies not only in nominal terms but also after taking into account the likely differences in their inflation rates for the forthcoming year. Consequently, the high interest rates resulting from the United States' relatively tight monetary policy strongly attracted short-term capital and raised the value of the dollar.

A 13% appreciation of the US dollar should have led to a significant increase in the quantum of that country's imports, given the increased competitiveness of foreign goods this implied. This would have served to compensate, at least in part, for the negative effect on the prices of the periphery's exports caused by the dollar appreciation. Unfortunately, the same high interest rates which caused the dollar to appreciate slowed down the United States economy as of the second quarter of 1981, so that any increase in the quantum of imports induced by the lower prices of the periphery's exports was largely offset by the reduced demand for imports due to the recession.

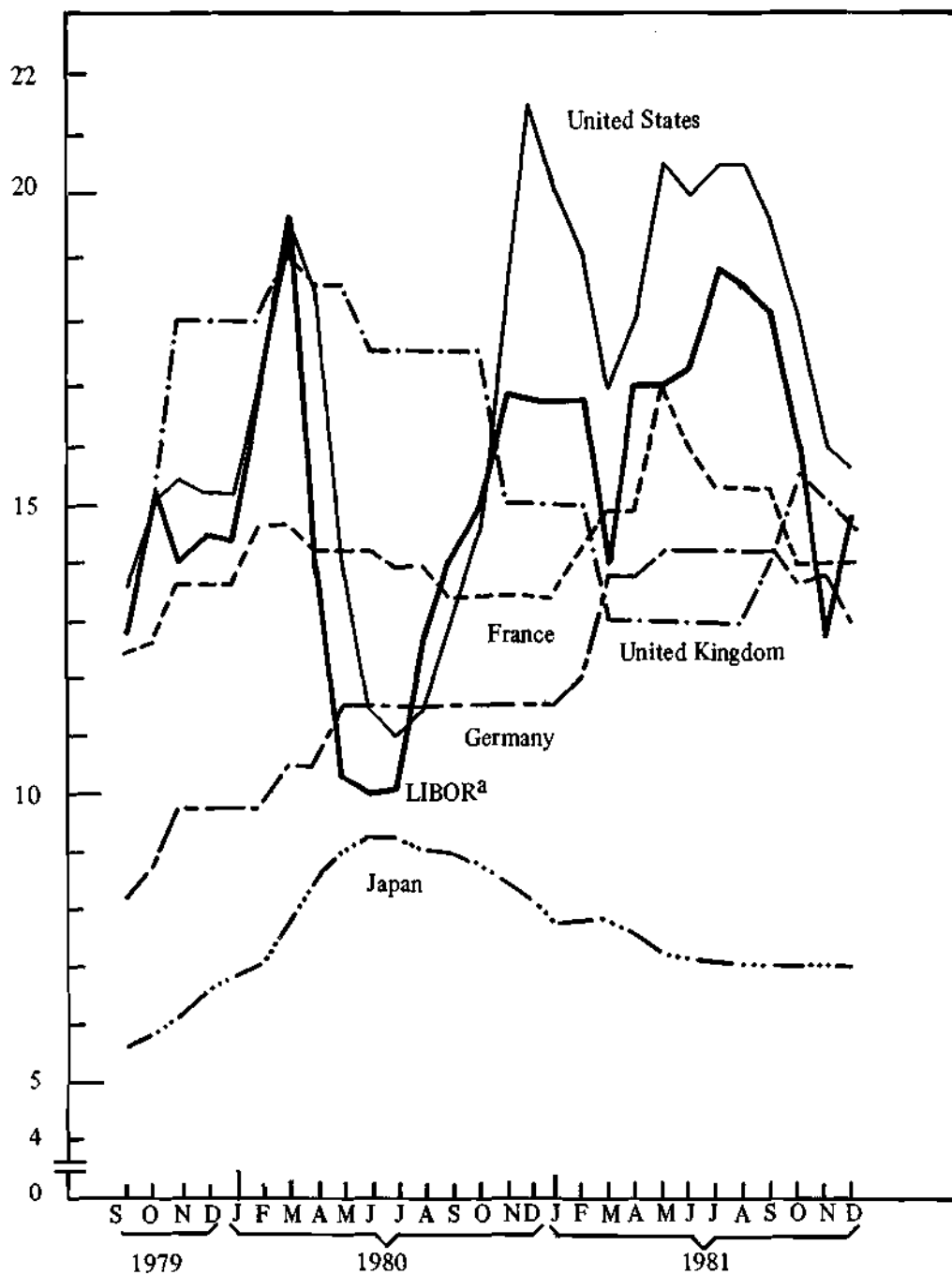
Figure 2
EFFECTIVE EXCHANGE RATES^a
(1975 = 100)



Source: IMF, *International Financial Statistics* (various issues).

^aIndices calculated by combining the exchange rate of the currency in question with those of 17 other major currencies, using weights derived from the IMF model (MERM).

Figure 3
**COMMERCIAL BANK LENDING RATES TO PRIME BORROWERS IN SELECTED
 INDUSTRIALIZED COUNTRIES AND LIBOR**
(Percentages)



Source: Morgan Guaranty Trust Company, *World Financial Markets* (various issues).

^aSix-month Eurodollar deposit rates at prime banks' bids in London.

2. Stabilization policies and the slowdown of the world economy

The widespread emphasis placed on price stabilization policies, notably in several of the major industrial countries, but in many of the developing countries as well, accounted in no small measure for the poor performance of the world economy in 1981. To be sure, stabilization policies were only one of several determinants of this slowdown. Since stagnation, unwanted however, all too frequently accompanies stabilization policies, it would have been very surprising if a widespread move towards restrictive policies had not led to a slowdown, if not a downturn, in the world economy. It is therefore worth considering why the fight against inflation came to acquire top priority in many countries' policies.

The monetary policy followed by the United States in the late 1960s, designed to cover that country's excessive deficits, by consequently expanding money supply well beyond the center's needs of dollar reserves, finally led to the abandonment of the fixed dollar parity with gold and a movement away from the dollar towards other currencies and goods, resulting in the depreciation of the dollar (throughout the 1970s) and the commodity boom of 1972-1973. This sequence of events together with the quadrupling of oil prices late in 1973, raised the rate of inflation throughout the world, and most notably in the OECD countries, to double digit levels (see table 6). Had the surge in inflation been a once and for all phenomenon, it would not have been as serious. The problem, however, was its persistence. Five years after the first hike in oil prices, inflation in the industrial countries had not yet been brought down under 7%, thus leaving it at almost double the rate which prevailed during the 1960s. The fact that inflation persisted at such high levels in spite of the important recession experienced by the OECD countries in 1974-1975 made the situation all the more distressing (see table 8). Another puzzling feature was that although by 1978 the OECD economies had largely recovered their former dynamism, unemployment rates were proving difficult to budge and hovered around 5%, well above their typical pre-recession levels (see table 9).

Table 8

OECD: GROSS DOMESTIC PRODUCT

(Growth rates)

	1962- 1972	1976- 1978	1979 1973	1980 1974	1981 ^a 1975
Total OECD	5.0	4.1	3.3 6.1 ^b	1.2 0.9 ^b	1.3 -0.4 ^b
Federal Republic of Germany ^c	4.4	3.8	4.5 4.9 ^b	61.8 0.5 ^b	-1.0 -1.8 ^b
France	5.6	4.0	3.3 5.4 ^b	1.2 3.2 ^b	0.5 0.2 ^b
Japan ^c	9.6	5.2	5.9 8.8 ^b	64.2 -1.0 ^b	63.8 2.3 ^b
United Kingdom	2.7	2.7	1.5 7.5 ^b	-1.8 -1.0 ^b	-2.0 -0.6 ^b
United States ^c	4.2	5.1	2.3 5.4 ^b	-0.2 -0.6 ^b	1.8 -0.9 ^b

Source: OECD, *Economic Outlook*, N^o, December, 1981.

^aPreliminary figures.

^bCorrespond to the years 1973, 1974 and 1975.

^cGross National Product.

Table 9
UNEMPLOYMENT IN SELECTED OECD COUNTRIES
(Percentage rates)

	1970-1972	1976-1978	1979 1973	1980 1974	1981 ^a 1975
Federal Republic of Germany	0.8	3.6	3.2 0.9 ^b	3.4 1.6 ^b	5.0 3.7 ^b
France	2.6	4.8	5.9 2.6 ^b	6.3 2.8 ^b	7.5 4.1 ^b
Japan	1.2	2.1	2.1 1.3 ^b	2.0 1.4 ^b	2.3 1.9 ^b
United Kingdom	3.6	5.9	5.8 3.0 ^b	7.0 2.9 ^b	10.5 3.9 ^b
United States	5.3	6.7	5.7 4.7 ^b	7.2 5.4 ^b	7.5 8.3 ^b
Seven major countries ^c	3.6	5.3	4.9 3.4 ^b	5.7 3.7 ^b	6.5 5.4 ^b

Source: OECD, Economic Outlook, No 30, December, 1981.

^a Preliminary figures.

^b Correspond to the years 1973, 1974 and 1975.

^c Italy and Canada are added to the countries mentioned above.

Then in 1979, even before the second oil price hike, inflation began to accelerate in the OECD, reaching a rate of almost 10% in 1979 and, after the doubling of oil prices, almost 13% in 1980. The fear that high inflation expectations were becoming permanently built into the OECD economies and so could make stabilization policies ever more costly to pursue led several countries to give the fight against inflation their top priority, notwithstanding the unusually high rates of unemployment then present. What is perhaps equally significant is that priorities shifted not only towards stabilization policies, but towards monetary instruments in particular. Especially in the United Kingdom and later in the United States, reliance was placed on restrictive monetary policies as the principal, if not the sole, stabilization instrument.

Exclusive reliance on restrictive monetary policies regardless of the effect on interest rates—the announced intention of the US Federal Reserve Bank as of late 1979—meant that interest rates would rise sharply and be more volatile, as indeed was the case throughout 1980 and 1981. This in turn meant that the brunt of the deceleration in nominal demand would be borne in the first instance by sectors sensitive to interest rates, such as consumer durables and construction, rather than by the economy as a whole. This, together with the disregard of instruments such as income and fiscal policies for guiding expectations and/or spreading the burden of reduced expenditure more widely, made it all the more likely that much of the effect of the stabilization policy would fall on output rather than on prices.

It is true that restrictive monetary growth did succeed in slowing inflation, from 12.9% in 1980 to 10.8% in 1981. But not surprisingly—given the almost exclusive reliance on this one instrument—success was achieved at the cost of stagnation or recession in most of the OECD countries, with growth deceleration from 3.3% in 1979 to little over 1% in both 1980 and 1981 (see table 8). A further result was that unemployment rose to 6.5%; almost double its historical rate and higher than that which prevailed in the recession of 1974-1975. Even countries such as France and Germany, typically characterized by very low unemployment, reached rates of over 5% in 1981.

Thus, while inflation was clearly continuing to give way in several of the OECD countries, especially the United Kingdom, the United States and Japan, output was virtually stagnant in

1981, with hopes for recovery limited so long as real interest rates remained high. How these could be brought down became the subject of much public debate: whether there should be a less restrictive monetary policy, or a smaller United States public deficit, or less volatility in monetary expansion. All schools of thought, however, concurred that recovery would be stymied unless interest rates came down, but these remained high, notwithstanding the significantly lower rates of inflation universally forecast for 1982. The contrasting proposals put forward reflected the quandary in which policymakers found themselves, all of which raised the extra premium to cover the uncertainty which characterized the market at this time, and which did little to overcome the inertia bogging down the economy.

3. The developing countries

The developing economies today no longer merely respond to, or simply reflect, events in the developed world. This is certainly the case of the oil-exporting countries, but to a greater or lesser extent it is true of other developing countries as well. As noted earlier, on the positive side, the developing regions of South and East Asia grew rapidly in 1980 and 1981. On the negative side, there were other cases where internal events weighed far more heavily: countries at war (Iran and Iraq) or enduring serious civil strife (e.g. Afghanistan and El Salvador); or countries racked by their own peculiar disequilibria (e.g. the struggle of Brazil and Argentina against triple-digit inflation). Yet, on balance, the evolution of most non-oil-exporting developing nations was heavily conditioned by the sluggish performance of the central economies.

In particular, it was the stagnation induced by the stabilization policies of the central countries which largely accounted for the principal events shaping the performance of the developing economies in 1981. The centre's stagnation slowed down the rise in the value of the periphery's non-oil exports to 8% in 1981 down from 25% or more in 1979 and 1980 (see table 3). Since the periphery's imports grew quite strongly and, even more importantly, interest payments ballooned, the current account deficit of the non-oil-exporting countries grew dramatically for the fourth consecutive year, topping US\$ 100 billion in 1981, or the equivalent of over 30% of their merchandise exports (see table 10). The combination of relatively sluggish demand in the centre, high interest rates and the appreciation of the dollar resulted in a sharp decline in the prices of the periphery's main exports. It is true that the dollar prices of European export manufactures also declined, but this drop was less sharp, so that the non-oil-exporting countries suffered a deterioration of their terms of trade of the order of 10-15%. Thus, the growth in the gross domestic product of the non-oil-exporting countries, once adjusted for the deterioration in their terms of trade, must

Table 10

BALANCE OF PAYMENTS CURRENT ACCOUNT SITUATIONS^a

(Millions of dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Total ^b	14.8	16.9	6.3	5.7	-3.2	-5.6	1.7	-16.7	-37.0
Industrialized countries	19.7	-13.8	17.7	-2.3	-5.7	30.4	-9.3	-46.1	-4.0
Oil-exporting developing countries	6.6	67.8	35.0	40.0	30.8	2.9	69.8	115.0	68.9
Non-oil exporting developing countries ^c	-11.5	-37.1	-46.4	-32.0	-28.3	-38.9	-58.8	-85.6	-102.0

Source: IMF, on the basis of official figures.

^aOn goods, services and private transfers.

^bIncludes errors, omissions and balance of listed groups with other countries mainly centrally-planned economies.

^cExcludes data for the People's Republic of China prior to 1977.

actually have been negative in 1981. Moreover, complicating matters further, the burden of servicing the developing countries' debt rose sharply in 1981 due to both higher levels of indebtedness and the marked rise in real interest rates.

Even though it is tempting to ascribe the developing countries' marked deceleration in growth in 1981 to the stagnation in the central countries, the deterioration in the terms of trade and the rise in interest rates, this argument is not fully convincing, for however sluggish the centre's economic activity was in 1980-1981, it nevertheless did expand, and certainly far more than during the recession of 1974-1975, when its output actually fell. Yet in the face of that recession, the developing countries grew by nearly 6% and 4% in those two years, well above their 1981 growth of 0.6% or even the 1.4% growth rate of the non-oil-exporting developing economies (see table 1).

Nor was the deterioration in the terms of trade of the periphery in 1981 unique, for it had been equally strong in 1975 (see figure 1). True, real interest rates to the developing countries were low or negative in 1974-1975 whereas in 1981 they were quite high. Yet this latter effect should have been compensated by the fact that the quantum of the non-oil-exporting countries' exports grew significantly in 1981, whereas it actually fell in 1974-1975.

There would seem to be three critical variables which explain how the developing countries—even the non-oil-exporting ones—were able to maintain acceptable growth rates in 1974 and 1975 despite the deterioration of the central economies, whereas in 1981 their economies stagnated notwithstanding the less depressed conditions besetting the centre.

In the first place, and most importantly, capital flows to the periphery were relatively stronger after the oil price hike of 1973 than after 1979. Though the current account deficit of the non-oil-exporting developing countries increased by a substantial 75% between 1979 and 1981, this was far less than the quadrupling in the current account deficit which took place between 1973 and 1975, financed almost in its entirety, in both instances, by external capital (see table 11). Put differently, net capital flows to the periphery (approximately measured by the current account deficit) reached 31% of the value of their exports in 1981, well below the 41% reached in 1975. What is more, this ratio of capital inflows to exports increased by only 7 percentage points from 1979 to 1981, whereas it increased by 27 percentage points in 1973-1975 (from 14% in 1973 to

Table 11
NON-OIL DEVELOPING COUNTRIES: CURRENT ACCOUNT
DEFICIT AND ITS FINANCING

	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Current account deficit									
a) Billions of dollars	11.5	37.1	46.4	32.0	28.3	38.9	58.8	85.6	102.0
b) As percentage of exports ^b	14.0	32.0	41.0	24.0	17.0	21.0	24.0	28.0	31.0
Source of financing (Billions of dollars)									
a) Net capital flows	21.4	38.5	43.9	44.5	40.4	54.7	68.9	86.8	97.0
b) Net borrowing ^c	11.0	25.7	32.0	32.6	25.8	39.4	47.4	66.2	...
c) Net direct investment and others ^d	10.4	12.8	11.9	11.9	14.6	15.3	21.5	20.6	...
d) Reduction of reserve assets (- increase)	-9.9	-1.4	2.5	-12.5	-12.1	-15.8	-10.1	-1.2	5.0

Source: IMF, on the basis of official figures, and GATT, Press Release N° 1313, 23 March 1982.

^aPreliminary figures.

^bExports are taken from IMF, *International Financial Statistics*, various issues. These figures are generally larger than those given by GATT, so that there may be divergences with respect to table 3. The series is comparable over time, however, which is what matters most in this case.

^cIncludes residual errors and omissions.

^dIncludes net unrequited transfers, SDR allocations, valuation adjustments, and monetization of gold.

41% in 1975). Thus the voluminous capital flows made available to the developing countries in 1974-1975 provided them with the wherewithal to sustain expansive domestic product policies in the face of a deteriorating external situation and won them time till their exports could grow to close the gap. After 1979, similar capital flows were harder to come by for two reasons:

(1) The level of the non-oil-exporting developing countries' foreign debt (especially of the middle-income ones with greater access to private capital) was much higher. Consequently, interest payments—especially those arising from the fast-growing variable interest loans from private sources—expanded very rapidly (see table 7) and so raised the perceived risk for lenders, discouraging sharp increments in credit availability;

(2) On the debtor's side, high interest rates served to discourage further borrowing. Thus, capital was far less freely available in 1981 to help developing economies tide over the poor international situation, and many developing countries were therefore obliged to pursue restrictive policies of their own, rather than expansive ones as in 1974-1975, in order to adjust to external disequilibria.

Secondly, the expansive policies pursued by many developing nations in the face of the deteriorating external situation in 1974-1975 sustained growth, but at the cost of much higher inflation. Thus, by 1979 rates of inflation in many non-oil-exporting developing areas averaged nearly 25%, easily three times their pre-1973 levels (see table 12). The second oil price hike of 1979 exacerbated inflation further, so that by 1980 many developing countries faced disequilibria on both the external front (balance of payments restrictions) as well as internally (rampant inflation). Thus there was far less scope for expansive policies to cope with external disequilibria in 1980-1981 than in 1974-1975. Indeed, several developing countries had little choice in 1981 but to pursue restrictive policies lest inflation get completely out of hand. Such policies barely managed to hold inflation at its 1980 levels, so that it is to be feared that further emphasis will need be given to price stabilization policies in many developing countries, suggesting that strong economic growth is still off in the future.

Table 12
DEVELOPING COUNTRIES: CONSUMER PRICES

(Percentage annual average changes)

	1971- 1972	1973- 1975	1976- 1978	1979	1980	1980 12 months to Sept.	1981 12 months to Sept.
Oil-exporting developing countries ^a	5.2	14.2	13.4	10.4	14.1	14.7	13.0
Non-oil exporting developing countries	...	27.4	26.0	24.5	32.0	36.8	36.6
Africa ^b	4.8	15.2	17.0	17.5	16.4	16.2	21.1
Asia ^c	6.6	17.2	4.2	6.1	11.1	13.0	...
Europe ^d	9.6	16.7	19.9	33.2	50.4	47.4	31.4
Middle East ^e	6.0	16.8	20.8	31.1	53.4	54.9	43.2
Western Hemisphere ^f	19.4	40.0	47.6	46.8	55.4	55.2	66.3

Source: IMF, International Financial Statistics, (various issues).

^aComprise Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia and Venezuela.

^bCameroon, Ethiopia, Gabon, Ghana, Ivory Coast, Kenya, Madagascar, Morocco, Senegal, South Africa, Sudan, Tanzania, Tunisia, Saire and Zambia.

^cBangladesh, Burma, People's Republic of China, India, the Republic of Korea, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka and Thailand.

^dGreece, Portugal, Romania, Turkey and Yugoslavia.

^eEgypt, Israel, Jordan, Syrian Arab Republic and Yemen Arab Republic.

^fArgentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Mexico, Nicaragua, Peru, Trinidad and Tobago and Uruguay.

Finally, While the deterioration in the terms of trade of the non-oil-exporting developing economies in 1981 was no worse than in 1975, still 1981 marked the fourth such fall in a row, representing a decline of over 20% since 1977 (see figure 1).

In contrast, the decline in the terms of trade was only the second consecutive fall and it came after the commodity boom of 1972-1973. Moreover, even at their lowest the terms of trade in 1975 were still 11% above their 1981 level. Thus, 1981 must be distinguished from the 1974-1975 experience in both the severity and the duration of the worsened terms of trade.

The convergence of these three sets of forces in one year —considerably less abundant capital flows, the greater need to pursue domestic anti-inflationary policies, and the severity and duration of the worsened terms of trade— would seem to explain why developing countries' growth was much more severely hampered by the stagnation of the central countries in 1981 than it had been by the centre's harsher recession of 1974-1975.

II. MAIN TRENDS

Because of the deterioration in the terms of trade and the sharp increase in the service of the external debt, as well as the restrictive policies applied by many countries to reduce the external disequilibrium and the severity of inflationary processes, the evolution of the Latin American economy was much more negative in 1981 than in previous years.

Thus, the economic growth rate, which during the period 1979-1980 had averaged over 6% and had even surpassed the growth rates of the industrialized countries, the centrally planned economies and all the other main regions of the developing world, dropped to only 1.7% in 1981. This was the lowest rate recorded for Latin America over the entire postwar period; in addition, the per capita product declined slightly in 1981, a phenomenon which had not occurred in any of the preceding 21 years.

As a result of this slowdown, and especially because of the stagnation of the manufacturing industry and the decline, for the second year in a row, of construction activity, the unemployment rate rose from 5.9% in 1980 to 6.5% in the main urban centres of the region, thus interrupting the steady reduction of the unemployment rate which had been taking place since 1976.²

Despite the loss of vigour of the economy and the rise of unemployment, and also despite the reduction of external inflationary pressures, during 1981 the high rate of increase in consumer prices of the two preceding years was maintained (see table 13 and figure 4).

In the external sector, there was a marked reduction in the rate of increase of the value of exports and imports after the extraordinary growth of the two preceding years, when the value of Latin American foreign trade rose by almost 70%.

The decline in the rate of increase of the value of exports of goods, from almost 30% in 1980 to 7% in 1981, was entirely due, however, to the dramatic change which took place in the unit value of exported goods. In effect, after rising by around 23% in 1980, it dropped by almost 3% in 1981, primarily as a result of the overall drop in prices of the main commodities exported by the region. On the other hand, the volume of external sales of goods expanded at the exceptional rate of 10%, thanks especially to the remarkable growth of such sales in the non-oil-exporting countries, which managed to increase the volume of their exports by 12.5%. This performance was particularly commendable considering that, as a result of the recession affecting the industrialized countries and the resurgence in many of them of protectionist practices, the volume of world trade did not change during 1981, whereas the value declined slightly. Consequently, in 1981, Latin America

²These rates refer to the weighted average of the unemployment rates of the four main cities of Argentina and Colombia, the six largest cities of Brazil, the three largest cities of Mexico, and the capitals of Costa Rica, Chile, Paraguay and Uruguay. If the Brazilian cities on which unemployment statistics are available only as from 1980 are excluded, the level of and the increase in unemployment rates will be lower.

Table 13
LATIN AMERICA: MAIN ECONOMIC INDICATORS^a

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^b
Basic economic indicators										
Domestic product at market prices (billions of dollars at 1970 prices)	219	237	254	264	278	292	307	327	346	351
Population (millions)	280	288	295	303	311	319	327	335	343	352
Per capita gross domestic product (dollars at 1970 prices)	782	825	861	871	896	915	939	975	1 008	998
Growth rates										
Short-term economic indicators										
Gross domestic product	7.0	8.3	7.0	3.8	5.4	4.8	5.1	6.5	5.9	1.7
Per capita gross domestic product	4.3	5.6	4.3	1.2	2.8	2.2	2.5	3.9	3.3	-1.0
Urban unemployment rate ^{c,d}	...	...	...	...	7.7	7.4	6.8	6.0	5.7	5.9
									5.9 ^e	6.5 ^e
Consumer prices ^f	20.9	36.3	40.0	57.6	61.5	40.4	38.2	53.8	56.2	57.2
Terms of trade (goods and services)	2.2	10.9	14.2	-10.5	2.6	2.8	-7.6	5.0	5.3	-5.1
Current value of exports of goods and services	15.5	38.9	52.1	-4.8	13.7	17.6	10.1	32.8	28.9	7.9
Current value of imports of goods and services	12.5	28.5	61.9	8.6	3.9	14.4	16.6	26.3	31.8	7.9
Billions of dollars										
External sector										
Exports of goods and services	22.0	30.5	46.4	44.2	50.3	59.1	65.1	86.4	111.4	120.2
Imports of goods and services	23.4	30.0	48.6	52.8	54.9	62.8	72.3	92.4	121.8	131.5
Trade balance (goods and services)	-1.4	0.5	-2.2	-8.6	-4.6	-3.7	-8.1	-6.0	-10.4	-11.3
Net payments of profits and interest	-3.3	-4.4	-5.3	-5.7	-7.2	-8.4	-10.7	-14.3	-18.4	27.4
Balance on current account	-4.4	-3.6	-7.3	-14.1	-11.3	-11.6	-18.4	-19.8	-28.7	-38.8
Balance-of-payments position	3.0	4.6	4.4	0.6	4.4	4.7	10.3	6.4	-1.5	0.5
Official international reserves ^g	10.1	15.5	21.6	21.3	24.0	29.5	38.5	48.8	56.7	51.5
Balance of disbursed external debt										
Public external debt ^h	21.1	27.0	36.0	44.1	57.0	71.6	92.9	110.1	123.6	149.8
Gross global external debt ⁱ	...	42.3 ^h	...	69.1	89.5	104.6	133.4	167.3	205.3	257.0
Net global external debt ^j	...	26.9 ^h	...	47.9	65.6	75.2	95.2	118.8	148.9	205.8

Source: CEPAL, on the basis of official figures.

^aThe figures for the product, population and income relate to the group of 21 countries included in table 14, except Cuba and Jamaica. The figures for prices relate to the group of countries made up of those 19 countries plus Barbados, Guyana, Jamaica and Trinidad and Tobago. The figures for the external sector refer to those 23 countries plus Suriname, except in the case of the data on the global and external debt, which exclude Barbados, Bahamas and Panama.

^bPreliminary figures.

^cPercentages.

^dWeighted average rate for Buenos Aires, Córdoba, Mendoza, Rosario; Bogotá, Barranquilla, Medellín, Cali; Mexico City, Guadalajara, Monterrey; San José, Costa Rica; Santiago, Chile; Asunción, Paraguay; Lima, Peru; Montevideo, Uruguay.

^eWeighted average rate for the cities mentioned in ^d plus Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife.

^fVariation from December to December.

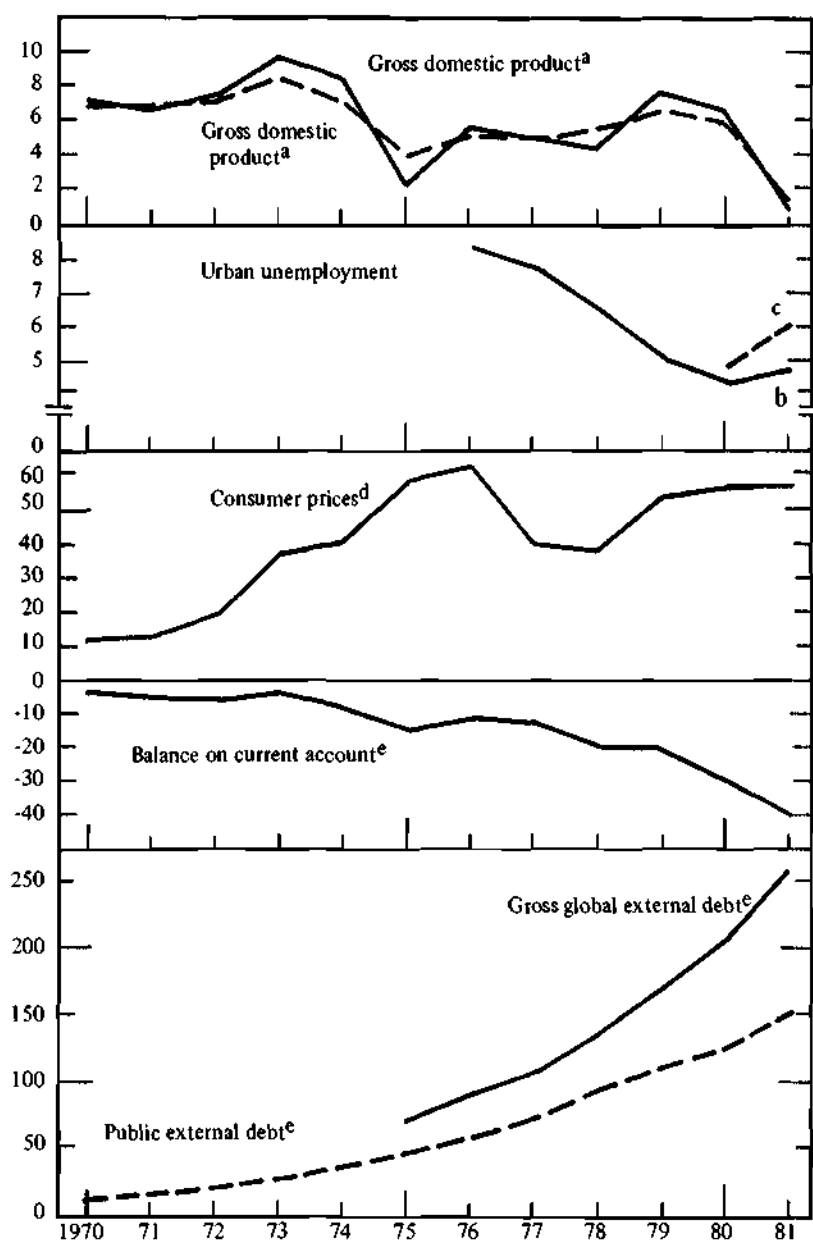
^gPlus monetary gold valued at fine ounce prices in London less the use of International Monetary Fund credit.

^hExternal debt with a term of more than one year corresponding to public bodies or guaranteed by them.

ⁱDisbursed public external debt plus non-guaranteed debt with financial institutions reporting data to the Bank for International Settlements.

^jGross global external debt less official international reserves.

Figure 4
LATIN AMERICA: MAIN ECONOMIC INDICATORS



Source: CEPAL, on the basis of official data. ^aAnnual growth rates. ^bAnnual average weighted rate in Buenos Aires, Córdoba, Mendoza, Rosario; Bogotá, Barranquilla, Medellín, Cali; Mexico City, Guadalajara, Monterrey; San José (Costa Rica); Santiago (Chile); Asunción (Paraguay); Lima (Peru); Montevideo (Uruguay). ^cAverage annual weighted rate for cities referred to in footnote ^b plus Rio de Janeiro, Sao Paulo, Belo Horizonte, Puerto Alegre, Salvador and Recife. ^dWeighted December-December percentage variation. ^eBillions of US dollars.

again increased its share in world trade, as it had already done during the five preceding years, and thus continued to recover part of the ground it had lost during the period 1965-1975.³

Despite the above, and also despite the efforts made by many countries to control the growth of imports, the volume of which only rose by a little over 2% after having risen by nearly 13% in 1980, the deficit on the balance-of-payments current account increased by US\$ 10 billion and rose to nearly US\$ 39 billion, thus doubling the amount of only two years before. In such circumstances, there was also a marked rise in the ratio between the current account deficit and the value of exports of goods and services. This ratio, which during the previous five-year period had ranged from 20% to 28%, rose to 33% in 1981, thus slightly exceeding the record set in 1975, at the culmination of the international crisis of the mid-1970s. The coefficient was, of course, much higher (46%) in the non-oil-exporting countries, in which it was equivalent to the average for 1974-1975, when they had had to deal with the effects of the first sharp rise in the international price of hydrocarbons.

The main cause for this accentuation of the external disequilibrium was the enormous increase in net payments for profits and interest, which rose from US\$ 18 to 27 billion, as a result of the increase in the external debt and the increase in the interest rate on the international financial markets.

Nevertheless, contrary to what happened in 1980, when net capital income was lower than the negative current account balance and the balance of payments closed with a deficit, in 1981 the region had a slight surplus of US\$ 450 million on the balance of payments. This turnaround was entirely due to the remarkable increase in the net flow of loans and investments to Latin America, which rose from US\$ 27 billion in 1980 to 39 billion in 1981.

Naturally, this greater attraction of financial resources went hand in hand with a rise in the external indebtedness. The gross global disbursed external debt of Latin America rose from 205 billion dollars at the end of 1980 to 257 billion at the end of 1981. Thus, the debt almost doubled over the last three years, as it had as well during the triennium 1975-1981 (see table 13).

In addition, contrary to what happened in both 1979 and 1980, in 1981 the rate of growth of the external debt was considerably higher than that of the value of exports of goods and services. Hence, the ratio between the debt and exports, after declining in the two previous years, rose sharply in 1981, to an unprecedented figure of nearly 2.2. This rise was particularly serious during a period when the average term of the external debt was shortening and the interest rates were rising considerably on the international market.⁴

III. ECONOMIC GROWTH

1. The growth rate

As has been mentioned above, in 1981 the economic growth rate of Latin America dropped sharply. After rising from 6.5% in 1979 and almost 6% in 1980, the gross domestic product only rose by 1.7% in 1981 (see table 14). In addition to being the lowest recorded since 1945, this rate was also lower than the population growth rate. Consequently, the per capita gross domestic product declined slightly in 1981; this had not happened since 1959.

³During this period, the share of world exports represented by external sales of Latin America declined from 7.4% in 1961 to only 4.2% in 1975. Thanks to the subsequent recovery, this share rose to almost 5.5% in 1981.

⁴Although the value of exports is only one partial indicator of an economy's purchasing power, since, among other things, this is greater in countries where the export coefficient is lower, a debt-export coefficient as high as the one recorded in Latin America in 1981 gives rise to concern. If, for example, it is assumed: (a) that the external debt is twice as high as the value of exports; (b) that the average term of the debt is 10 years, and (c) that the average interest rate is 15%, amortization payments will absorb 20% of exports, whereas interest payments will represent an additional 30% of exports. In other words, given the assumed values -which appear reasonable in the light of recent experience in the region- the service of the external debt alone would absorb half the value of exports.

Table 14

LATIN AMERICA: EVOLUTION OF THE GLOBAL GROSS DOMESTIC PRODUCT

(Growth rates)

	1970- 1974	1975	1976	1977	1978	1979	1980	1981
Latin America ^b	7.1	3.8	5.4	4.8	5.1	6.5	5.9	1.7
Argentina	4.1	-0.8	-0.5	6.4	-3.4	7.1	1.4	-6.1
Bolivia	5.5	6.6	6.1	4.2	3.4	1.8	0.6	-0.6
Brazil	11.5	5.7	9.0	4.7	6.0	6.4	8.0	-1.9
Colombia	6.9	4.3	4.2	4.8	9.0	4.9	4.2	2.5
Costa Rica	7.1	2.1	5.5	8.9	6.3	4.9	0.6	-3.6
Cuba ^c	8.7 ^d	12.3	3.5	3.1	8.2	1.9	2.4	11.7
Chile	0.9	-12.9	3.5	9.9	8.2	8.3	7.5	5.3
Ecuador	11.5	5.6	9.2	6.5	6.6	5.1	4.8	4.3
El Salvador	4.9	5.6	4.0	5.9	4.4	-1.6	-9.0	-9.5
Guatemala	6.4	1.9	7.4	7.8	5.0	4.7	3.5	1.0
Haiti	4.7	2.2	5.3	1.3	4.4	4.7	5.7	-3.0
Honduras	3.5	-2.0	7.0	5.8	7.3	6.7	1.6	-0.4
Jamaica	4.9	-2.6	-8.3	-2.0	-1.7	-1.5	-5.4	2.0
Mexico	6.8	5.6	4.2	3.4	8.1	9.2	8.3	8.1
Nicaragua	5.3	2.2	5.0	6.3	-7.2	-25.5	10.0	8.9
Panama	5.2	0.6	-1.1	1.6	4.1	5.7	4.9	4.5
Paraguay	6.4	6.3	7.0	12.8	10.9	10.7	11.4	8.5
Peru	4.8	4.5	2.0	-0.1	-0.5	4.1	3.8	3.9
Dominican Republic	10.1	5.2	6.7	5.0	2.2	4.8	5.6	3.5
Uruguay	1.3	4.8	4.2	1.8	6.2	8.7	3.7	-0.7
Venezuela	5.2	5.9	8.4	6.8	3.2	0.9	-1.2	0.6

Source: CEPAL, on the basis of official figures.

^a Preliminary estimates.^b Average, excluding Cuba and Jamaica.^c Growth refers to the growth of the material product, which is equivalent to the gross value of agricultural production, mining, manufacturing, construction and electric power.^d 1971-1974.

In addition to being pronounced, the loss of economic dynamism was a generalized phenomenon. The growth rate of the gross domestic product dropped in 16 of the 20 countries under consideration, whereas the per capita product dropped in absolute terms in 10 of them (see table 15).

Because of the relative importance of Argentina and even more so of Brazil on the total product of Latin America, the slowdown of economic activity in these two countries had a considerable effect on the decline in the growth rate of the region.

In Brazil, which by itself generates around one-third of the total product of Latin America, economic activity declined by almost 2%, after having increased by 8% in 1980. This decline, the first to occur in Brazil in the last 40 years, was basically a reflection of the drop of around 6.5% in manufacturing, which was in turn affected by the restrictive measures adopted in late 1980 for the twofold purpose of reducing both the heavy deficit on the balance-of-payments current account and the sharp inflationary process recorded during that year. As was to be expected, the decline in economic activity was also particularly evident with respect to gross fixed capital formation, which dropped by 7.5%, and construction, which dropped by over 4%.

The contraction of economic activity was much more pronounced (-6%) in Argentina, where over one-tenth of the overall production of the region originates. As in Brazil, the sectors suffering

the most serious declines were construction, which dropped by 6%; trade, which dropped by 9.5%; and, above all, the manufacturing industry, which suffered a decline of 16%. Industrial production thus dropped below the level attained at the beginning of the 1970s. As a result of the decrease in the product in 1981 and of the slow and irregular evolution of the Argentine economy during the second half of the 1970s, the per capita product decreased to a level similar to that of 1972.

During 1981, the rate of economic growth also declined in all the Central American countries, in most of which social conflicts and political tensions continued or increased, with the resulting accentuation of economic uncertainty.

The deterioration was especially marked in El Salvador, where the gross domestic product declined by 9.5%, after having dropped by 9% in 1980. Because of these drops and of the slight decline of overall economic activity in 1979, the per capita product was 25% lower in 1981 than in 1978 and was also lower than it had been 20 years earlier.

Economic activity also declined, although to a much lesser extent, in Costa Rica (-3.6%) and Honduras (-0.4%) and virtually came to a standstill in Guatemala; thus, the per capita product decreased in the three countries. In the case of Costa Rica, the economic contraction was also accompanied by a marked deterioration of the terms of trade, a very violent acceleration of the inflationary process, a considerable drop in real salaries and a large increase in the unemployment rate, all of which worked together to create the most serious crisis suffered by the economy of that country since the Great Depression of the 1930s.

Thus, of the Central American countries, only Nicaragua experienced a considerable increase of economic activity, with the product rising by 9%, after having risen by 10% in 1980. However,

Table 15

LATIN AMERICA: EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AT MARKET PRICES

	Dollars at 1970 prices			Growth rates				
	1970	1975	1981 ^a	1970-1974	1975-1978	1979	1980	1981 ^a
Latin America	720	871	998	4.5	2.2	3.9	3.3	-1.0
Argentina	1 256	1 353	1 310	2.7	-0.9	5.8	0.2	-7.2
Bolivia	317	372	370	3.0	2.4	-0.8	-2.0	-3.2
Brazil	528	777	916	8.6	3.7	3.9	5.5	-4.2
Colombia	587	708	833	4.3	3.3	2.9	1.8	0.3
Costa Rica	740	875	943	4.4	3.2	2.5	-1.7	-5.9
Chile	967	794	1 081	-0.8	.	6.5	5.7	3.5
Ecuador	420	622	738	9.3	3.8	1.9	1.6	1.1
El Salvador	422	476	376	1.8	2.4	-4.3	-12.2	-12.1
Guatemala	439	494	549	3.1	2.3	1.6	0.4	-1.9
Haiti	123	135	139	2.4	0.9	2.2	2.7	-5.4
Honduras	313	296	327	0.5	1.8	2.9	-1.0	-3.8
Mexico	977	1 143	1 426	3.4	2.2	6.0	5.2	5.0
Nicaragua	431	480	364	2.1	-1.8	-27.9	6.4	5.4
Panama	940	1 043	1 164	3.3	-0.2	4.5	2.5	1.2
Paraguay	383	452	665	3.2	5.6	7.1	7.9	5.2
Peru	646	707	684	2.0	-1.2	1.3	1.0	1.1
Dominican Republic	378	503	565	6.9	2.0	2.2	3.0	0.9
Uruguay	1 097	1 164	1 443	1.1	4.0	8.1	3.0	-1.3
Venezuela	1 205	1 278	1 243	1.7	2.4	-2.5	-4.5	-2.7

Source: CEPAL, on the basis of official information.

^aPreliminary estimates.

because of the large decline of around 33% in economic activity during the biennium 1978-1979 as a result of the destruction and upset caused by the civil conflict which ended in mid-1979, the level of the gross domestic product was still almost 20% lower in 1981 than in 1977.

Moreover, in 1981 the loss of dynamism which had been noted since 1975 in the Bolivian economy was accentuated, the stagnation of the Venezuelan economy continued for the third year in a row, and the domestic product of Uruguay dropped slightly.

In Uruguay, where economic growth had been very rapid in both 1978 and 1979, but where the growth rate had already slowed down considerably in 1980, the drop in the product in 1981 was due partly to the negative impact of external factors (such as the deterioration in the terms of trade and the slowdown of economic activity in Argentina and Brazil, which play a key role in the foreign trade and tourism income of Uruguay and whose currencies were sharply devalued in 1981), and partly to the effect of the overvaluation of the peso, the real contraction of the amount of money and the high interest rates brought about by the stabilization policy.

The measures taken to reduce the rate of increase of prices also had a decisive influence on the very weak growth of economic activity in Venezuela. Because of the large deficit on the balance-of-payments current account in 1978 and the sharp acceleration of the inflationary process which occurred in 1979, the economic authorities began in 1980 to apply certain restrictive policies, both in the monetary field and in the fiscal sector. While these measures did gradually attenuate the rate of increase of prices, they also contributed to a reduction in the growth rate of the manufacturing industry and caused sharp drops in the construction sector and in commercial activity (see table 16). As a result of this and of the decline in oil production brought about by compliance with OPEC agreements, the gross domestic product, after having stagnated during the biennium 1979-1980, rose by only 0.6% in 1981. This increase was not sufficient, however, to prevent the per capita product from dropping, as it had during the three preceding years; consequently, the per capita product was almost 10% lower in 1981 than in 1977.

Among the countries whose growth rate was higher than the regional average were Colombia, where economic activity increased by 2.5%; Panama and the Dominican Republic, where it rose by about 3.5%; Peru, 4%; and Ecuador, where it was slightly over 4%, and Chile, 5.3%.

In Ecuador and especially in Colombia, the growth rates reached in 1981 represented a continuation of a slowdown which had begun to be evident in 1979. In both countries, the growth of economic activity in 1981 was also the lowest recorded in many years —15 years in the case of Ecuador and a quarter of a century in the case of Colombia. Finally, since in both countries the decline in the growth rate went hand in hand with a deterioration of the terms of trade, per capita income was reduced in absolute terms, after having risen sharply in Colombia during the boom in international coffee prices from 1976 to 1979, and after having risen even more sharply and steadily in Ecuador, as a result of the rapid growth of economic activity and the sharp rises in the international price of oil throughout the 1970s.

The increase of somewhat over 5% in the gross domestic product of Chile in 1981 also represented a considerable reduction with respect to the economic growth rate achieved in previous years. After having recovered in 1977 the level attained before the drastic contraction of 1975, economic activity had grown at an average rate of around 8% during the ensuing three years. This impetus continued, although with less force, up to the first half of 1981, but the trend was drastically reversed during the second half of the year, when industrial production began to drop, construction starts were virtually at a standstill and the unemployment rate rose abruptly.

In Peru, on the other hand, the 4% increase in economic activity represented the continuation of the moderate growth rate which had begun in 1979, after the recession suffered by the economy between 1976 and 1978. This growth was stimulated by the notable rise in fixed capital formation—which increased by 18% in 1981, after having risen by 45% in 1980—and was supported by the heavy expansion (11%) of the agricultural sector and the marked dynamism shown for the second year in a row by the construction industry (see table 16). Nevertheless, because of the effect of the economic contraction of 1976-1978 and the rapid growth of the population, the per capita product did not recover even in 1981 the level achieved in 1975.

Table 16

LATIN AMERICA: EVOLUTION OF THE MAIN ECONOMIC SECTORS

(Growth rates)

	Agriculture			Mining and quarrying			Manufacturing			Construction		
	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a
Latin America	2.4	2.7	4.8	9.6	7.3	5.0	7.8	5.3	-2.0	4.7	8.0	1.5
Argentina	4.1	-5.9	3.1	6.4	5.6	-	10.2	-3.8	-16.0	2.7	13.2	-6.0
Bolivia	2.9	2.0	2.0	-8.3	-2.0	-1.3	2.8	-1.0	-3.0	-1.1	-5.0	-6.9
Brazil	5.0	6.3	6.8	10.0	12.6	0.2	6.7	7.6	-6.4	3.5	7.8	-4.2
Colombia	4.1	2.5	3.2	-0.6	14.2	4.0	4.2	2.3	-1.0	-9.8	8.0	8.0
Costa Rica	0.5	-0.8	2.3	^c	^c	^c	2.7 ^c	0.8 ^c	-1.1 ^c	19.3	-9.4	-21.5
Chile	6.2	2.2	3.0	5.4	5.9	3.6	7.9	6.2	2.6	23.9	25.7	16.2
Ecuador	3.6	5.2	4.0	7.5	9.0	5.5	7.6	6.4	6.6	-1.1	1.7	1.1
El Salvador	1.5	-5.9	-4.3	2.8	2.7	-2.6	-2.9	-15.5	-17.4	-14.4	-34.1	-7.9
Guatemala	2.8	1.8	1.2	78.3	53.7	-10.3	5.6	6.0	-1.0	6.5	0.2	4.9
Haiti	2.0	5.1	-5.1	-14.4	-15.1	-46.5	14.9	7.2	-1.2	13.4	5.7	4.8
Honduras	7.5	-2.8	1.0	3.9	3.3	-	3.5	5.6	2.5	8.0	-2.9	-9.2
Mexico	-2.1	7.1	6.4	14.7	22.0	16.2	10.6	7.2	7.5	13.0	12.3	11.5
Nicaragua	-14.	-10.0	14.3	-53.3	49.1	5.9	-26.4	22.4	2.7	-74.2	117.2	34.8
Panama	-3.5	1.1	-1.2	7.1	6.7	-3.1	17.0	4.0	-2.3	7.9	12.9	-7.0
Paraguay	6.7	9.2	6.7	42.1	26.0	15.0	7.7	12.6	8.0	30.0	26.0	16.2
Peru	4.5	-5.6	10.7	9.1	0.4	-4.1	4.3	5.7	1.8	4.6	18.8	11.1
Dominican Republic	1.1	-0.9	6.9	28.2	-14.8	6.2	4.6	5.0	2.1	5.2	7.1	0.8
Uruguay	5.9	10.8	-0.2	7.9	2.6	-9.5	10.2	2.6	-2.9	16.3	6.0	-2.4
Venezuela	3.7	3.1	0.4	8.6	-7.0	-3.0	4.2	2.7	0.3	-9.8	-15.3	-2.8

Source: CEPAL, on the basis of official statistics.

^aPreliminary figures.^bIncludes agriculture, mining and quarrying, manufacturing and construction.^cIncludes electricity, gas and water, and transport and communications.^dIncludes commerce, restaurants and hotels; financial establishments, insurance and real estate, community, social and personal services.^eMining and quarrying are included in manufacturing.

Thus, of the 20 countries included in table 14, the economic growth rate was very high only in Cuba, Mexico and Paraguay.

In Mexico, the gross domestic product rose by somewhat over 8%, thus extending for the fourth year in a row the phase of great dynamism which began in 1978. As in the three preceding years, the main cause of the economic growth was the vigorous growth of oil production and exports. Whereas drilling for crude oil rose by 19%, doubling the volume of nearly three years before, physical exports of oil rose by 33%, tripling over the brief period of three years, and the value of exports of hydrocarbons rose by 40%, to a total of around US\$ 14 500 million, a figure which is 700% higher than that recorded in 1978. The remarkable growth of the petroleum sector was accompanied by a considerable expansion of practically all other activities. Nevertheless, as had been the case in previous years, the rise of domestic demand was much higher than that of the product, and thus led to a very sharp increase in the volume of imports, a considerable deficit on the balance-of-payments current account and a sharpening of inflationary pressures.

In Paraguay—which since the mid-1970s has had the most dynamic economy of the region—the domestic product increased by 8.5%. This rate, although much lower than that achieved during the previous four-year period—when the product rose at an exceptional rate of nearly 11.5% per

year— was close to the rate of somewhat over 9% recorded throughout the period of strong growth which began in 1973. As in previous years, the main factor behind this dynamic growth was the construction sector, although the 16% increase in this industry in 1981 was equivalent to only half the average growth rate for the preceding four years. As a result of the rapid growth of the construction sector and despite the fact that in 1981, investment in machinery and equipment declined by 5%, gross fixed capital formation rose by somewhat over 9% and represented almost 35% of the product.

Finally, in 1981 there was a rapid growth of economic activity in Cuba. The material product³ rose by around 12%, after having increased slowly in 1980. Although practically all sectors grew rapidly, this acceleration of the growth rate was particularly due to the considerable growth of sugar cane agriculture (14%) and construction (16%) —both of which had contracted slightly in 1980— and the considerable growth of the manufacturing industry (12%). The most important general cause of this growth was the notable improvement in the organization and efficiency of many economic activities, which led to a marked increase in productivity.

2. Total supply and demand

After having risen at an average rate of nearly 5.5% in 1977 and 1978 and having expanded at a rate of nearly 7% in 1979 and 1980, the total supply increased by less than 2% in 1981. This abrupt decline in the growth rate of the total supply reflected the much slower growth in 1981 of the gross domestic product and the even sharper reduction of the increase in the volume of imports. The latter, which between 1977 and 1978 rose at a very high rate of nearly 10% and in 1980 rose by 13.5%, increased by only a little over 3% in 1981 (see table 17). This slowing of the increase in the volume of imports was due especially to the adjustment policies implemented in 1981 in many non-oil-exporting countries, as a result of which real imports of goods and services declined by almost 6% in such countries. This decline contrasted sharply with the trend as regards the volume of imports in the two preceding years, when they increased at an average rate of over 13%. Nevertheless, since the rate of increase of the volume of imports was once again higher than that

Table 17

LATIN AMERICA: TOTAL SUPPLY AND DEMAND

(Growth rates)^a

	1970- 1974	1975	1976	1977	1978	1979	1980	1981 ^b
Total supply	7.6	3.4	4.9	5.2	5.6	6.9	6.7	1.7
Gross domestic product	7.2	3.8	5.5	4.8	5.1	6.5	5.9	1.5
Imports of goods and services	11.3	-0.5	-0.4	9.1	10.0	10.6	13.4	3.1
Total demand	7.6	3.4	4.9	5.2	5.6	6.9	6.7	1.7
Domestic demand	7.9	3.8	4.8	4.9	5.1	6.6	6.8	1.1
Gross fixed investment	8.7	10.2	4.8	4.1	6.3	5.6	8.3	0.6
Total consumption ^c	7.7	2.1	4.7	5.1	4.8	6.9	6.4	1.3
Export of goods and services	4.1	-1.7	7.2	9.4	11.3	10.8	5.3	8.5

Source: CEPAL, on the basis of official statistics.

^aEstimated on the basis of constant values of 1970 prices.

^bPreliminary figures.

^cIncludes change in stocks.

³This is equivalent to the sum of the values of gross production of the agricultural, mining, manufacturing, construction and electric power sectors.

of the product, the import coefficient rose for the fifth year in a row, reaching the highest levels since 1960 (see table 18).

By contrast with the much slower increase in 1981 of the volume of imports, the volume of exports rose by 8.5%, thus amply surpassing the growth of the previous year. Thus, the intense and sustained growth of real exports continued for the sixth year in a row and the upward trend in the export coefficient which had begun in 1976 also continued.

As in the case of imports, the acceleration of the growth of exports was heavily influenced by the evolution of external sales of the non-oil-exporting countries. The volume of such sales rose at the unprecedented rate of 11.5%, thanks especially to the particularly sharp growth, for the fourth year in a row, of the volume of exports from Brazil and to their recovery in Argentina, Costa Rica, Nicaragua, and the Dominican Republic.

On the other hand, there was an almost total stagnation of gross fixed capital formation in 1981, after three years of satisfactory growth. The same thing happened, although more moderately, with respect to consumption, which after having grown at an average rate of over 6.5% during the two preceding years, rose barely over 1% in 1981. Thus, per capita consumption dropped for the first time since 1975.

IV. EMPLOYMENT AND UNEMPLOYMENT

In general, the unfavourable evolution of the majority of Latin American economies in 1981 had a negative impact on the employment situation. However, owing to the substantial differences in the structure and growth rate of the labour force and in the facilities of the labour markets, the effects on the employment situation varied considerably in the different countries.⁶

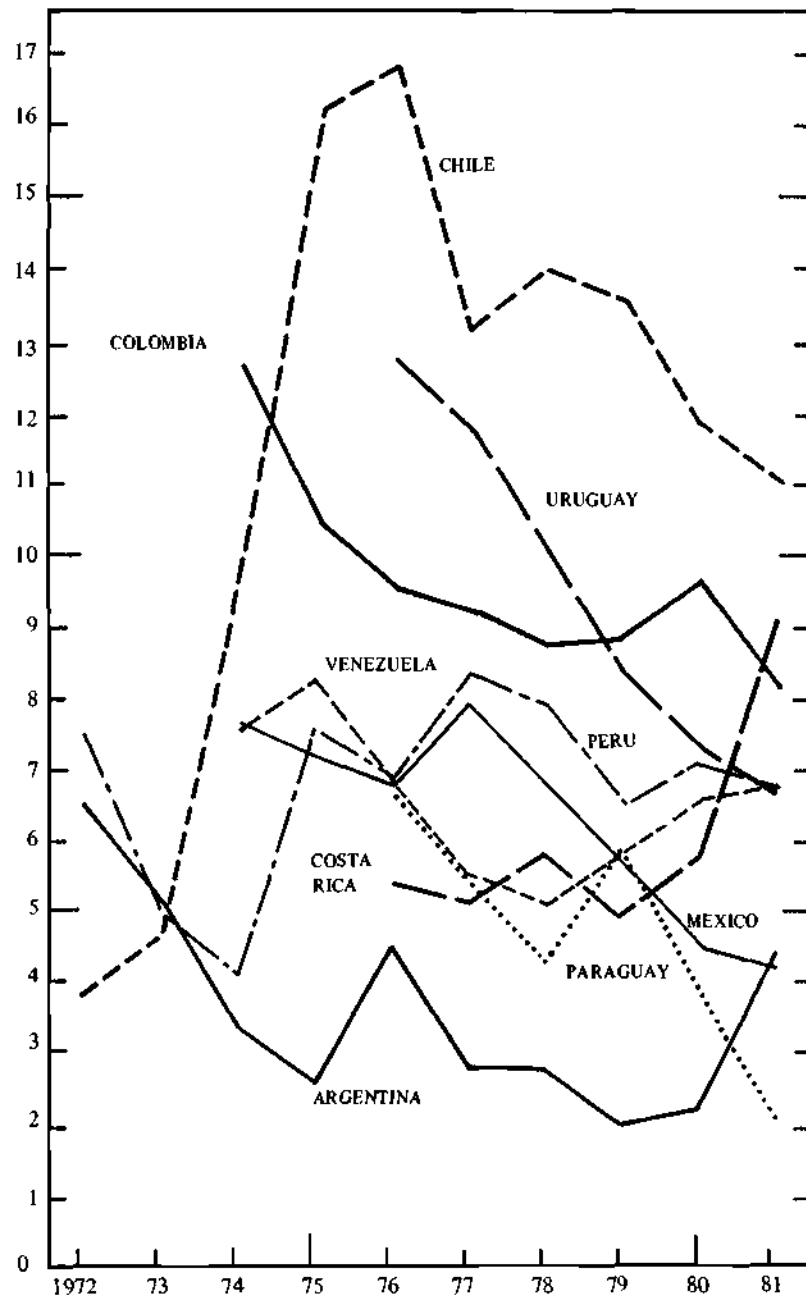
Of the ten countries for which statistical series on urban development are available,⁷ four—Argentina, Brazil, Costa Rica and Venezuela—showed deterioration in 1981 to judge by the increase in their respective rates of unemployment. Moreover, although on average unemployment was lower in Chile and Uruguay in 1981 than in 1980, the curve followed by the rate of unemployment during the year showed a decline in both countries in the first half of the year and a sharp rise in the second. The rate of unemployment also fell slightly in Peru and more markedly in Colombia, dropping to very low levels in Mexico and, especially, in Paraguay (see table 19).

In comparative terms, the employment situation deteriorated very markedly in Argentina in that the rate of open unemployment in the Federal Capital and Greater Buenos Aires doubled, rising from an average of 2.2% in 1980 to one of 4.4% in 1981, the rate rising to nearly 5% at the end of the year. The increase in unemployment was even more intense in the main cities in the interior, especially Rosario and Mendoza (see figure 6). Nevertheless, the percentage of the

⁶Before analysing the evolution of the employment situation in 1981, it is necessary to bear in mind some structural aspects which, in spite of the differences, are to a greater or lesser extent, characteristic of the employment situation in the region. In the first place, it is important to note that although manpower in Latin America has grown during the past decade at an unprecedented rate, enough jobs have been created in the various sectors to avoid sizeable increases in the rate of open unemployment (see figure 5). On the other hand, this has been possible partly because labour has been absorbed—to a significant degree in many cases—by both the urban and the rural informal sectors, one of the dominant characteristics of which is the low productivity and small income of the employed labour force. Consequently, in order to evaluate the magnitude of the total under-utilization of labour, consideration must be given not only to open unemployment but also to the existence of significant degrees of underemployment in many Latin American economies. Thus, according to studies made by PREALC, at the beginning of this decade, the under-utilized labour in the region amounted to 23 million integrally under-utilized labourers, 80% of whom fell into the various categories of underemployment while only 20% were in the open-unemployment category.

⁷Unfortunately, in the majority of the countries of the region, no statistical records are kept on unemployment and underemployment in the rural areas or even in the different cities, and, in general, there are no reliable series on the short-term evolution of the absolute level of employment either. These drawbacks are of course extremely prejudicial to the analysis of changes in the employment situation.

Figure 5
LATIN AMERICA: EVOLUTION OF THE RATE OR URBAN UNEMPLOYMENT
(Annual averages)



Source: Table 19.

unemployed in the labour force was still very low by comparison with that in the other Latin American countries (for which the rate of unemployment was lower in 1981 only in Paraguay), and also in the seven leading OECD economies, in which the rate of open unemployment was, in all cases save Japan, higher than in Argentina.

The unfavourable evolution of the Argentine employment situation reflected to a large extent the negative progress made in 1981 by the basic urban sectors, such as manufacturing, trade and construction, whose levels of activity fell by 16%, 9.5% and 6%, respectively. The substantial drop in industrial production (which came on the heels of a decline of nearly 4% in 1980) resulted in a decrease of nearly 13% in the number of workers employed in the manufacturing sector in 1981 by comparison with the average for 1980. In addition, since industrial employment had already declined appreciably in past years, its average level in 1981 was nearly 23% lower than in 1970 and 35% lower than in 1975.

In Brazil, a country where, as has already been pointed out, the gross domestic product suffered from a moderate decrease, unemployment rose very slightly, but starting from much higher levels. According to the monthly survey of employment carried out in the six main metropolitan regions of the country,⁸ the rate of open unemployment rose from an average of 6.3% in 1980 to 7.9% in 1981, bringing the total number of unemployed in those six regions to over 800 000. Very high rates of unemployment were recorded in Belo Horizonte and Salvador (for which the average annual rate of unemployment was 9%) and in Rio de Janeiro and Recife, where it reached 8.6%. On the other hand, the rate of unemployment was much lower (5.8%) in Porto Alegre and less than 8% in Sao Paulo (see table 20). As in Argentina, the increase in unemployment in Brazil was related to the unfavourable performance of urban activities in 1981. Thus, the drop of over 6% in the product of the manufacturing sector was accompanied by a somewhat larger decrease in industrial employment, whose level during the last quarter of the year was nearly 13% lower than during the same period in 1980 and 10% lower than for the final quarter in 1979.

The evolution of the employment situation was even more negative during 1981 in Costa Rica, a country which up to 1979 had managed to absorb the very rapid expansion of its labour force thanks to vigorous and sustained economic growth and to the extraordinary increase in employment in the public sector.⁹ However, when economic activity stagnated in 1980 and fell by nearly 4% in 1981, the average rate of unemployment rose sharply from somewhat less than 5% in 1979 to slightly over 9% in 1981. This increase was even more pronounced in San José, a city where the rate of unemployment, after falling to a historic minimum of 2.8% in November 1979, rose persistently in the following two years, attaining the unprecedented figure of 11.7% in November 1981 (see tables 19 and 20 and figure 6).

During 1981 the employment situation in Venezuela also continued to deteriorate although much more gently. Actually, owing to the nearly total stagnation of the gross domestic product since 1979 and the drop of over 25% in the construction sector during the past three years, the rate of open unemployment in the urban centres rose from 5.1% in 1978 to 6.8% in 1981, the highest rate recorded in the past five years.

The evolution of the employment situation was in Chile and Uruguay only seemingly more favourable than in the countries mentioned above; actually, in both countries, the average rate of unemployment continued to decline in 1981, as it had already done in the two preceding years in Chile and since 1977 in Uruguay, but this downward trend was unusually vigorous during the second half of the year (see figure 6).

This downturn was particularly notable in Chile. During the first half of the year the rate of open unemployment in Greater Santiago continued on the downward trend begun at the begin-

⁸The monthly survey of employment carried out by the Brazilian Geographical and Statistical Institute provides data only after 1980.

⁹During the 1970s, the growth rate of the labour force was close to 4% while the gross domestic product grew at an average annual rate of 6.2%. As for employment in the public sector, between 1973 and 1979 it grew at the exceptionally high average annual rate of 13%.

Table 18

**LATIN AMERICA: RELATIVE SHARES OF THE COMPONENTS
OF EXPENDITURE AND OF IMPORTS IN THE
GROSS DOMESTIC PRODUCT**

(Percentages)

	Total consumption ^a	Gross fixed Investment	Exports	Imports
1970	80.3	19.9	9.0	9.2
1971	80.3	20.2	8.6	9.0
1972	80.1	20.3	8.6	9.0
1973	80.1	20.6	8.7	9.4
1974	81.4	21.2	8.2	10.8
1975	80.1	22.6	7.7	10.4
1976	79.5	22.4	7.9	9.8
1977	79.7	22.3	8.2	10.2
1978	79.5	22.5	8.7	10.7
1979	79.7	22.3	9.0	11.1
1980	80.0	22.8	9.0	11.8
1981 ^b	79.8	22.6	9.6	12.0

Source: CEPAL, on the basis of official statistics.

^aIncludes changes in stocks.^bPreliminary figures.

Table 19

LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT

(Average annual rates)

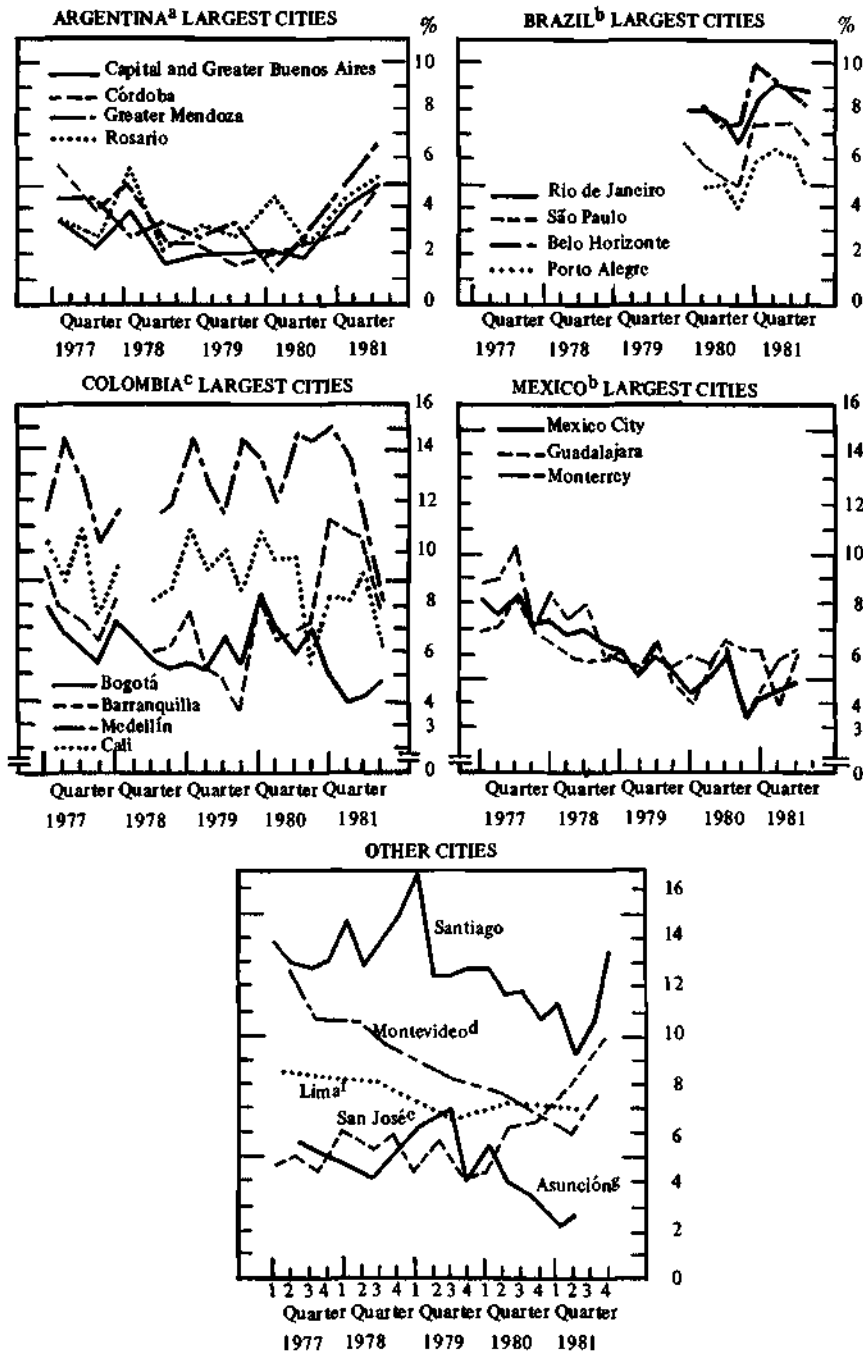
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Argentina ^a	6.6	5.3	3.4	2.6	4.5	2.8	2.8	2.0	2.2	4.4
Brazil ^b	...	...	...	...	...	...	...	...	6.3	7.9
Colombia ^c	...	...	12.7	10.6	9.6	9.3	8.8	8.9	9.7	8.2
Costa Rica ^d	...	6.7	...	...	5.4	5.1	5.8	4.9	5.8	9.1
Chile ^e	3.8	4.6	9.7	16.2	16.8	13.2	14.0	13.6	11.8	11.1
Mexico ^f	...	...	7.7	7.2	6.8	8.0	6.9	5.7	4.5	4.2
Paraguay ^g	...	12.0	...	...	6.7	5.4	4.1	5.9	3.9	2.2 ^h
Peru ⁱ	7.6	5.0	4.1	7.6	6.9	8.4	8.0	6.5	7.1	6.8
Uruguay ^j	7.7 ⁱ	8.9 ⁱ	8.1	...	12.8	11.8	10.1	8.4	7.4	6.7
Venezuela ^k	...	...	7.6	8.3	6.8	5.5	5.1	5.8	6.6	6.8

Source: CEPAL, on the basis of official data.

^aCapital and Greater Buenos Aires.^bAverage rate for Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife.^cAverage for Bogotá, Barranquilla, Medellín and Cali.^dUrban total.^eGreater Santiago.^fAverage rate in the metropolitan areas and Mexico City, Guadalajara and Monterrey.^gRate for Asunción, Luque, San Lorenzo and neighbouring towns.^hFirst semester.ⁱMetropolitan Lima, annual averages according to data available each year.^jMontevideo.^kUrban Total.

Figure 6

LATIN AMERICA: EVOLUTION OF UNEMPLOYMENT IN LARGEST CITIES (1977-1981)
(Rates of unemployment)



^aFigures for April and October. ^bQuarterly averages. ^cFigures for March, June, September and December. ^dBiannual averages. ^eFigures from March, July and November. ^f1977, average for March and June; 1978, average for July and August; 1979, September; 1980, April; 1981, June. ^g1977 and 1978, annual averages; 1979, 1980 and 1981, quarterly figures.

Table 20

**LATIN AMERICA: EVOLUTION OF THE UNEMPLOYMENT RATE
IN MAJOR CITIES**

	1977	1978	1979	1980	1981	1980				1981			
						I	II	III	IV	I	II	III	IV
Argentina ^a													
Capital and Greater Buenos Aires	2.8	2.8	2.0	2.2	4.2	-	2.3	-	2.0	-	3.9	-	4.9
Córdoba	5.0	3.9	2.2	3.5	3.8	-	2.1	-	2.7	-	2.9	-	4.6
Greater Mendoza	4.4	3.2	3.1	2.2	5.8	-	1.4	-	2.9	-	4.8	-	6.7
Rosario	3.1	4.2	2.9	3.4	4.6	-	4.3	-	2.4	-	4.1	-	5.1
Brazil ^b													
Río de Janeiro	-	-	-	7.5	8.6	7.9	7.9	7.6	6.6	8.3	8.9	8.8	8.7
Sao Paulo	-	-	-	5.6	7.7	6.7	5.7	5.3	4.9	7.4	7.4	7.5	6.7
elo Horizonte	-	-	-	7.6	9.0	-	8.0	7.4	7.4	9.9	9.4	8.7	7.9
Porto Alegre	-	-	-	4.6	5.8	-	4.7	4.8	4.1	5.9	6.3	6.1	4.9
Colombia ^c													
Bogotá	7.6	7.2	6.6	8.0	5.5	9.5	7.8	6.8	8.0	5.9	4.9	5.2	5.8
Barranquilla	8.8	7.7	6.3	8.2	11.2	9.2	7.5	7.8	8.2	12.3	11.8	11.6	9.0
Medellín	13.3	12.7	14.4	14.7	13.1	14.7	12.9	15.7	15.4	15.9	14.9	12.2	9.2
Cali	10.5	9.8	10.7	10.0	8.9	11.7	10.8	10.8	6.6	9.2	9.1	10.1	7.3
Mexico ^b													
Mexico City	7.9	6.9	5.7	4.7	4.5 ^d	4.3	5.1	6.0	3.5	4.2	4.5	4.9	-
Guadalajara	7.4	6.0	5.7	5.5	5.4 ^d	4.0	5.4	6.5	6.2	6.2	4.0	5.9	-
Monterrey	9.0	7.8	5.9	5.4	5.5 ^d	6.0	5.6	6.6	3.4	4.5	5.8	6.3	-
San José (Costa Rica) ^e	4.7	5.8	4.6	5.6	8.8	4.3	6.2	-	6.4	7.3	8.4	-	10.7
Santiago (Chile) ^f	13.2	14.0	13.6	11.8	11.1	12.8	11.7	11.8	10.7	11.3	9.0	10.5	13.5
Asunción (Paraguay)	5.4	4.1	5.9	3.9	2.2 ⁱ	5.3	4.0	3.6	2.8	2.0	2.3	-	-
Lima (Peru) ^g	8.4	8.0	6.5	7.1	6.8	7.1	-	-	-	-	6.8	-	-
Montevideo (Uruguay) ^h	11.8	10.1	8.4	7.3	6.7	-	7.7	-	7.0	-	5.8	-	7.5

Source: CEPAL, on the basis of official data.

^a Figures for April and October.

^b Quarterly averages.

^c Figures for March, June, September and December.

^d Average for the first three quarters.

^e Figures for March, July and November.

^f Figures for March, June, September and December.

^g 1977, March-June average. 1978, July-August average. 1979, September. 1980, April. 1981, June.

^h Half-yearly averages.

ⁱ Average for the first two quarters.

ning of 1979 when economic activity reached the peak of the recovery from its dramatic slump in 1975 and embarked on a stage of strong growth, especially in the construction sector. Because of this, the rate of unemployment in the capital fell from 16.5% in March 1979 to 9% in June 1981, the lowest figure recorded since the beginning of 1974. During the first half of the year there was also a decline in the number of people enrolled in the minimum employment plan, the programme created in 1975 to soften some of the effects of the massive unemployment which the depression of that year had generated. However, when the growth of the economy fell markedly in the middle of 1981 and especially when the construction of nearly all the new buildings begun in the second half of the year was paralyzed, the rate of unemployment in Greater Santiago rose to 10.5% in September and to 13.5% in December. The downturn was even more marked in the cities located immediately south of the capital, where open unemployment was already close to 15% in September, and especially in the urban centres of the central provinces, where 19% of the labour force was out of work that same month.

Although the break in the downward trend of unemployment during the second half of the year was less violent in Uruguay than in Chile, it was noteworthy. Thus, in Montevideo, a city where close to 45% of the country's population is concentrated, the rate of unemployment fell in the first half of 1981 to 5.8%, which is the lowest average since reliable statistical registers began to be kept and represents less than half the rate of nearly 13% recorded at the beginning of 1977. Nevertheless, the downward trend which the rate of unemployment had followed since then was reversed in the second half of the year, during which economic activity and especially the production of manufactures and construction, began to decline.¹⁰ As a result of this, the rate of unemployment rose to 7.5% in the second half of the year, thereby exceeding both the figure recorded in the first half of 1981 and the rate of 7% shown a year previously.

During 1981 the average rates of urban unemployment in Colombia and Peru also fell. In Colombia, the rate of unemployment for all four of the largest cities in the country, which had shown a persistent decline between 1974 and 1978 but a slight rise in the following two years, fell to 8.2% —the lowest rate recorded in the past eight years— in 1981. Although unemployment also fell in Medellín and Cali, it decreased especially markedly in Bogotá, where it dropped from 8% in 1980 to 5.5% in 1981. Barranquilla, on the contrary, was the only main urban centre where the percentage of the labour force which was out of work rose (see table 20). To some extent, the decline in the rates of unemployment was surprising, in that during 1981 the growth rate of the economy fell and industrial production declined slightly. It is, however, possible that the effects of this decline on unemployment were partially outweighed by the impact of the sharp growth in construction for the second year running, by the probable increase in civil service personnel and, above all, by the drop in the rates of participation, which fell markedly in Bogotá, Cali and Medellín —the very three cities in which the drop in unemployment was concentrated, whereas the rate of participation rose in Barranquilla, which, as has been pointed out above, was the only main urban centre in which unemployment was higher.

The decline in open unemployment was considerably less substantial in Peru, for which data are available only for Lima. In this city, the rate of unemployment fell slightly —from 7.1% in the first half of 1980 to 6.8% in the corresponding period of 1981. This advance, which is to some extent attributable to the rapid growth which the construction sector showed, as it had in 1980, was partly counterbalanced by a marginal increase in underemployment. Thus, the share of Lima's labour force which was adequately employed in 1981 remained without variation, at about two-thirds of that shown the preceding year.

Thus, during 1981 the employment situation improved notably only in Mexico and Paraguay, the two economies of the region which achieved the highest and most sustained economic growth in Latin America in the past four years.

It is estimated that in 1981 employment increased by over 5% in Mexico, after having risen by somewhat more than 6% during the preceding year. This meant that in 1981 about one million new jobs were created, of which close to one third were generated in the services; 24%, in agriculture; 20%, in construction and close to 13%, in manufacturing. As a result of the notable expansion of employment, the average rate of open unemployment in the metropolitan areas of Mexico City, Guadalajara and Monterrey, which had fallen persistently from a figure of 8% in 1977 to 4.5% in 1980, dropped to 4.2% in 1981. The rapid growth of employment generated by the vigorous expansion of virtually all the sectors was also reflected in an increase in the imbalances which have occurred in past years between the labour supply and demand structures at various levels of skills. Thus, during 1981 the more pressing need for certain types of specialized labour resulting from the rapid expansion of some modern sector activities could not be easily met with adequately skilled manpower.

However, the most significant advance in employment during 1981 occurred in Paraguay. The rate of open unemployment in Greater Asunción¹¹ fell from 4.6% in the first half of 1980 to

¹⁰They fell by 7% and 5%, respectively, in the second half of 1981.

¹¹Including, in addition to Asunción, the cities of Luque and San Lorenzo and the towns of Fernando de la Mora and Lambaré.

2.2% in the same period of 1981. The nearly full employment which prevailed in 1981 was reflected in particular in the very low level (0.6%) to which the rate of unemployment of people over 25 years of age fell and also in the shortage of labour in the rural sector during the harvest seasons. This employment situation was due to the continuation of the persistent downward trend shown by the rate of unemployment during the second half of the past decade, as a result primarily of the sustained growth rate shown during this period by all the economic activities and in particular by the construction sector.¹²

V. THE EXTERNAL SECTOR

1. Foreign trade

After showing extraordinary growth in the previous two years, during which it rose at an average rate of 30%, the value of the foreign trade of Latin America increased by 8% in 1981. This meant that for the first time it exceeded US\$ 250 billion, more than doubling the value recorded four years previously, which, in turn, had been double the figure shown in 1973.

(a) *Exports of goods*

In 1981 the external sales of goods of Latin America amounted to somewhat more than US\$ 98 billion, exceeding the figure recorded in 1980 by nearly 7% (see table 21). This growth rate, although very much lower than the average rate of close to 32% achieved during the preceding two years, was again much higher than the growth rate of world trade, whose value, as already indicated, fell by 1% in 1980. This came as a continuation of the upward trend in the share of Latin American exports in world exports begun in the middle of the past decade.

However, by contrast with what had happened in 1980, when the increase in exports reflected the widespread progress they made in the large majority of the countries of the region, in 1981 their growth was due primarily to the very rapid expansion of the external sales of Mexico (22%), Brazil (16%) and Argentina (14%), countries which together generated close to half the Latin American exports of goods. During 1981, the exports of the Dominican Republic also continued to grow intensively, their value rising by 23.5% after having increased by over 40% in the preceding two years, and the same was true of the external sales of Uruguay, which rose by 15% after having increased by close to 55% in the period 1979 and 1980 (see table 22).

Conversely, the value of the exports of 13 of the 24 countries considered here declined, which had happened only in El Salvador and Nicaragua the preceding year. The drop in external sales was also particularly marked in Colombia (-24%), Haiti (-20%), El Salvador and Peru (-18%), Chile (-16%), Guatemala (-14%) and Guyana (-11%).

Moreover, the decline in the growth rate of the value of exports occurred in spite of the fact that in 1981 their volume increased sharply. In actual fact, the 10% increase in this variable was not only much higher than the increase in 1980 but was the highest recorded in the past 44 years, with the exception of the slightly higher volumes attained in 1959 and in the 1978-1979 biennium.

This increase (which is all the more striking in that it occurred during a year of total stagnation in the volume of world trade in merchandise) was, however, partially offset by the unfavourable growth in the unit value of exports, which declined by close to 3%, after having risen at a very high average rate of close to 21% during the two preceding years (see table 21).

As has already happened in 1980, although to a lesser extent, both the intensity of the growth of external sales and the factors determining their growth were different in the group made up of the six petroleum-exporting countries and in the other economies of the region. While the value of exports in the former countries rose by 8.6%, thanks to equal rises in their volume and unit value,

¹²Between 1975 and 1980, the gross domestic product increased at an average annual rate of somewhat more than 10%, while the construction sector grew at the phenomenal rate of 28% per annum. This latter figure means that in barely five years, the construction product increased by a coefficient of 3.4.

Table 21

LATIN AMERICA: VARIATION IN EXPORTS AND IMPORTS OF GOODS

(Growth rates)

	Export			Import		
	Value	Volume	Unit value	Value	Volume	Unit value
Latin America						
1970	9.1	1.1	7.9	14.3	9.6	4.4
1971	3.1	0.9	2.2	11.1	5.9	4.9
1972	16.0	6.5	8.9	13.5	7.2	6.0
1973	42.3	8.0	31.8	31.0	12.0	17.0
1974	57.1	-1.2	59.1	69.7	22.8	38.2
1975	-6.8	-2.9	-4.0	7.4	-1.9	9.5
1976	15.0	7.1	7.4	3.6	0.2	3.4
1977	18.6	7.1	10.7	14.3	10.0	4.0
1978	7.7	11.6	-3.5	13.7	6.0	7.2
1979	33.6	10.6	20.7	25.6	8.2	16.0
1980	29.7	5.7	22.7	32.5	12.6	17.6
1981 ^a	6.9	10.0	-2.7	6.2	2.2	3.9
Oil-exporting countries^b						
1970	8.0	5.0	2.9	10.2	5.3	4.7
1971	15.0	-2.2	17.5	13.8	9.5	3.9
1972	5.1	0.3	4.8	12.6	5.1	7.2
1973	50.1	8.3	38.6	17.9	7.6	9.6
1974	133.8	-8.8	156.2	54.9	34.2	15.4
1975	-18.1	-21.4	4.2	37.0	21.9	12.4
1976	9.5	3.3	6.0	7.8	3.5	4.2
1977	11.9	5.5	6.0	18.6	12.9	5.0
1978	8.1	14.5	-5.6	16.7	9.2	6.9
1979	52.9	14.1	34.0	16.6	5.3	10.7
1980	43.2	5.5	35.7	32.6	14.5	15.8
1981 ^a	8.6	4.2	4.2	17.1	11.3	5.2
Non-oil-exporting countries^c						
1970	9.3	1.2	8.0	15.2	11.6	3.2
1971	-0.4	1.7	-2.1	10.5	5.1	5.2
1972	19.7	8.3	10.5	13.7	7.6	5.7
1973	40.0	7.9	29.8	33.7	12.9	18.5
1974	33.0	0.7	32.0	72.5	20.5	43.1
1975	-0.5	1.4	-1.9	2.4	-7.2	10.4
1976	19.2	8.8	9.6	0.9	-2.5	3.5
1977	23.4	7.8	14.4	11.4	7.4	3.7
1978	7.5	10.5	-2.7	11.5	3.2	8.1
1979	21.3	9.2	11.1	32.4	11.1	19.2
1980	18.9	5.8	12.4	32.4	10.9	19.4
1981 ^a	5.2	12.5	-6.5	-1.2	-6.5	5.6

Source: CEPAL, on the basis of official data.

^a Preliminary figures.^b Up to 1975, includes Bolivia, Ecuador, Trinidad and Tobago and Venezuela; from 1976 on, Mexico and Peru are also included.^c From 1976 on, Mexico and Peru are excluded.

in the latter countries the value of exports rose by only slightly more than 5% in spite of the fact that their volume grew at an unprecedented rate of 12.5%.

The main cause of the reduction in the growth rate of the value of external sales of the non-oil-exporting countries was, in the last analysis, the drop in the unit value of their exports, which fell by 6.5% after having shown rapid growth in four of the five preceding years. This decline was, in turn, the result of the marked decreases shown in 1981 in the international quotations on nearly all the main commodities exported by this group of countries. As may be seen in table 23 and in figure 7, in 1981 the international prices of the majority of these goods declined throughout practically all of the year, after rising significantly in 1979 and 1980. Although the declines were particularly marked in the prices of sugar (41%), coffee, cocoa, copper and lead (close to 20%) and maize, beef, iron ore and tin (between 10% and 16%), the prices of fish meal, cotton, wool and soybeans also fell.

(b) Imports of goods

As in the case of exports, in 1981 the growth rate of the value of imports declined; however, the drop in the value of imports was more marked. Thus, after rising at an average rate of close to

Table 22
LATIN AMERICA: VARIATIONS IN EXPORTS OF GOODS

	(Growth rates)											
	Value			Volume			Unit value			Purchasing power		
	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a
Latin America	33.6	29.7	6.9	10.6	5.7	10.0	20.7	22.7	-2.7	19.6	13.2	-0.1
Oil-exporting countries	52.9	43.2	8.6	14.1	5.5	4.2	34.0	35.7	4.2	39.4	25.7	0.8
Bolivia	21.4	23.6	-3.5	2.2	-2.2	-1.5	18.8	26.4	-2.0	3.4	11.6	-6.9
Ecuador	41.9	15.7	2.3	0.9	-7.9	2.9	40.6	25.6	-0.6	24.1	3.3	-4.8
Mexico	48.9	74.6	22.1	17.7	24.7	11.9	26.5	40.0	9.1	33.9	52.6	17.4
Peru	81.3	10.8	-17.5	20.8	-14.8	-3.1	50.1	30.1	-14.8	68.9	-0.1	-24.8
Trinidad and Tobago	35.4	53.7	-8.5	-5.6	-1.6	-19.6	43.5	56.2	13.8	31.8	36.7	-12.7
Venezuela	55.9	34.6	5.4	11.8	-8.4	-6.3	39.5	46.9	12.5	44.7	17.2	-5.2
Non-oil-exporting countries	21.3	18.9	5.2	9.2	5.8	12.5	11.1	12.4	-6.5	4.7	0.6	-2.2
Argentina	22.0	2.7	14.0	-1.2	-12.6	16.9	23.6	17.5	-2.4	5.0	-3.5	8.5
Barbados	18.6	43.3	-7.1	18.6	19.0	-9.6	-	20.4	2.7	3.9	25.6	-14.0
Brazil	22.2	32.1	15.6	12.0	22.3	25.0	9.1	8.0	-7.5	4.2	6.6	5.5
Colombia	9.4	16.7	-23.6	21.4	-5.2	-14.7	9.9	23.1	-10.4	-0.8	5.2	-28.4
Costa Rica	9.0	6.2	2.9	0.1	-3.5	16.9	8.9	10.1	-12.0	-4.0	-10.3	-3.2
Chile	55.9	22.7	-1.8	19.1	9.2	-1.3	30.9	12.4	-14.8	30.5	3.4	-17.3
EL Salvador	44.2	-20.9	-18.2	37.8	-22.8	-9.1	4.6	2.5	-10.0	28.2	-32.2	-22.7
Guatemala	11.8	24.4	-14.2	9.6	22.7	-6.8	2.0	1.4	-8.0	-3.7	7.1	-19.3
Guyana	-1.0	32.8	-11.0	-8.3	-1.9	-17.3	8.0	35.5	7.6	-10.4	8.4	-16.5
Haiti	-8.0	53.4	-19.7	-3.9	33.0	-5.5	-4.2	15.4	-15.0	-16.5	35.4	-24.0
Honduras	19.8	11.3	-1.7	22.8	-7.6	4.0	-2.4	20.4	-5.5	11.5	-4.7	7.5
Jamaica	-1.5	17.9	1.6	-2.1	-10.4	1.4	0.6	31.6	0.2	-11.0	-4.1	22.4
Nicaragua	-4.7	-26.8	10.9	-11.9	-37.9	14.8	8.2	17.9	-3.4	-14.1	-40.1	5.9
Panama	10.6	11.8	-9.1	-8.5	-7.8	-0.9	20.9	21.3	-8.4	-7.9	-5.6	13.1
Paraguay	8.0	4.1	-0.1	1.1	0.3	-6.8	6.8	3.8	7.2	-7.8	-10.8	5.1
Dominican Republic	28.6	10.7	23.5	15.0	-23.3	12.8	11.8	44.3	9.4	16.2	-8.0	16.9
Sri Lanka	8.0	15.8	-7.9	1.6	-3.3	-16.5	6.3	19.7	10.4	-7.7	-0.2	-14.3
Uruguay	14.9	34.3	14.8	-11.8	19.6	15.0	30.2	12.3	-0.2	-4.3	9.4	6.8

Source: CEPAL, on the basis of official data.

^aPreliminary figures.

Table 23

LATIN AMERICA: PRICES OF THE MAIN EXPORT COMMODITIES

(Dollars at current prices)

	Annual averages						Growth rates				
	1976	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Unrefined sugar ^a	11.6	8.1	7.8	9.7	28.7	16.9	-30.2	-3.7	24.4	195.9	-41.1
Coffee (mild) ^a	157.7	240.2	185.2	183.4	178.8	145.3	52.3	-22.9	-1.0	-2.5	-18.7
Cocoa ^a	92.8	172.0	154.4	149.4	118.1	94.2	85.3	-10.2	-3.2	-21.0	-20.2
Bananas ^a	12.4	14.0	13.7	15.6	18.9	19.2	12.9	-2.1	13.9	21.2	1.6
Wheat ^b	135.6	105.6	131.9	164.4	177.4	178.5	-22.1	24.9	24.6	7.9	0.6
Maize ^b	138.9	114.4	132.5	154.8	210.3	181.0	-17.6	15.8	16.8	35.9	-13.9
Beef ^a	71.7	68.4	97.1	130.9	125.9	112.2	-4.6	42.0	34.8	-3.8	-10.9
Fish meal ^b	376.0	454.0	410.0	395.0	504.0	468.0	20.7	-9.7	-3.7	27.6	-7.1
Soy beans ^b	231.0	280.0	268.0	298.0	296.0	288.0	21.2	-4.3	11.2	-0.7	-2.7
Cotton ^a	79.3	73.9	72.	77.4	94.2	85.8	-6.8	-1.4	6.2	21.7	-8.9
Wool ^a	145.3	153.6	157.4	190.5	194.5	178.2	5.7	2.5	21.0	2.1	-8.4
Copper ^a	63.5	59.3	61.9	90.0	98.6	79.0	-6.6	4.4	45.4	9.6	-19.9
Tin ^a	3.4	4.9	5.8	7.0	7.6	6.4	44.1	18.4	20.7	8.6	-15.8
Iron ore ^b	20.2	20.2	19.7	24.0	28.9	25.9	-	-2.5	21.8	20.4	-10.4
Lead ^a	20.3	28.0	29.9	54.6	41.1	33.0	37.9	6.8	82.6	-24.7	-19.7
Zinc ^a	32.3	26.7	26.9	33.6	34.6	38.4	17.3	0.7	24.9	3.0	11.0
Bauxite ^b	117.3	134.8	138.4	152.6	212.5	216.3	14.9	2.7	10.3	39.3	1.8
Crude oil ^d											
Saudi Arabia	11.5	12.4	12.7	17.0	28.7	32.5	7.8	2.4	33.9	68.8	13.2
Venezuela	11.3	12.4	12.4	16.8	27.6	32.0	9.7	-	35.5	64.3	15.9

Source: UNCTAD, Monthly bulletin of basic commodity prices, 1960-1980 supplement and July 1982. International Monetary Fund, International Financial Statistics, 1981 and 1982 Yearbooks.

^a US cents per pound.

^b Dollars per metric ton.

^c Dollars per pound.

^d Dollars per barrel.

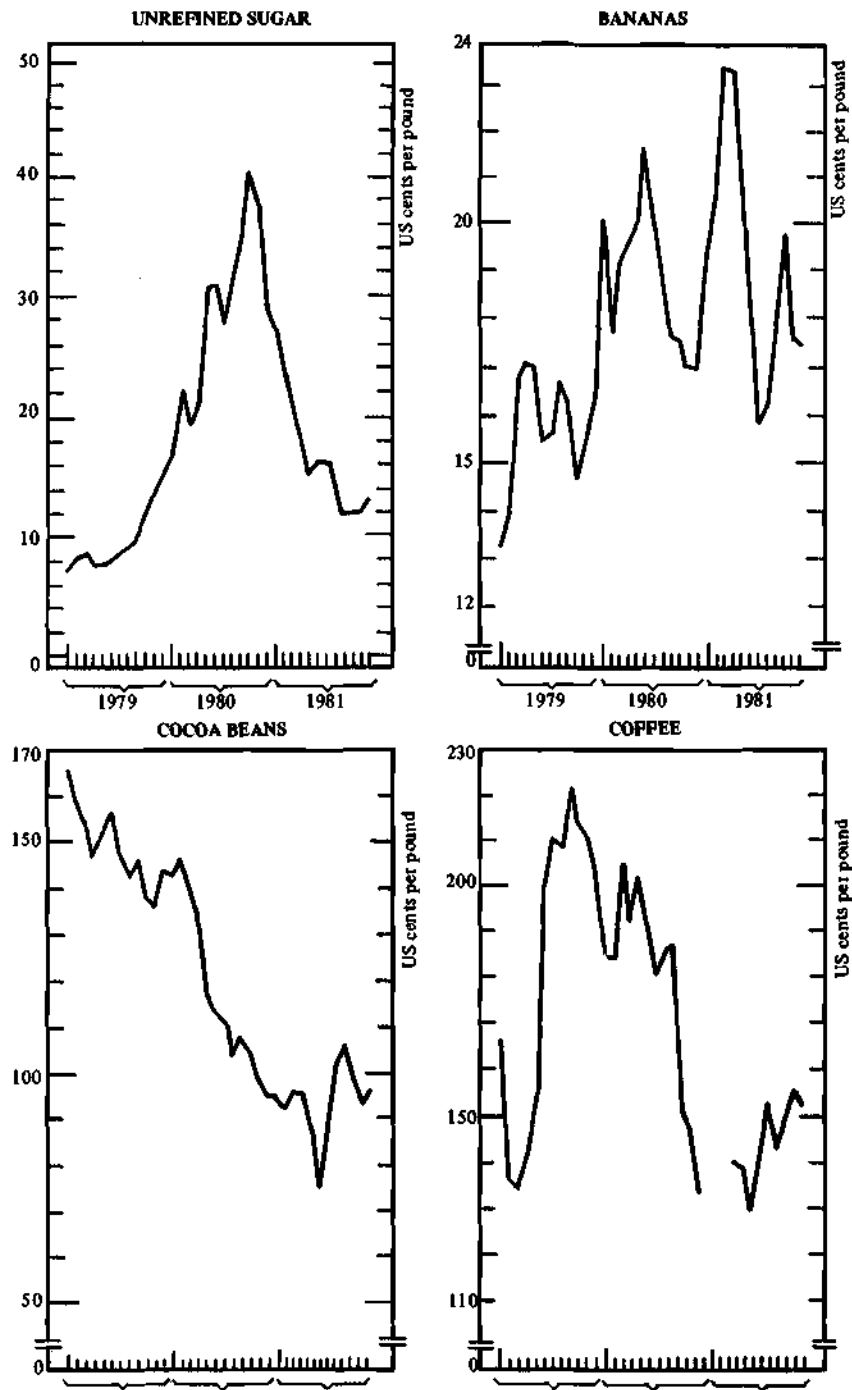
29% in the two preceding years, the value of imports of merchandise rose by little more than 6% in 1981. One of the factors responsible for this more gradual growth was the much lower rise in the unit value of imports in 1981 and, above all, the dramatic decline in the growth rate of their volume—from 12.6% in 1980 to somewhat more than 2% in 1981 (see table 21). Similarly, unlike what happened in 1980, when the growth of imports was very similar in the oil-exporting and non-oil-exporting countries, in 1981 it differed widely in the two groups of countries.

The growth rate of the value of imports remained very high (17%) in the oil-exporting countries, although it was much lower than in 1980, when purchases abroad rose by nearly 33%. In addition, this deceleration was almost totally due to the considerable moderation in the unit value of their imports in 1981. Conversely, the volume of external purchases rose at a very high rate of over 11%—only slightly lower than the exceptionally high rate achieved in 1980. The marked and persistent dynamism of the imports of these countries was also shown in the fact that during the past few years their value rose by 150% while their volume rose by 65%.

However, this vigorous expansion in the volume of imports of the petroleum-exporting economies in 1981 was entirely due to the growth in external purchases of merchandise by Mexico and Peru, in both of which the volume of imports rose by close to 24%. In the case of Mexico, this meant that in just four years the imports of goods trebled in real terms while their value more than quadrupled (see table 24).

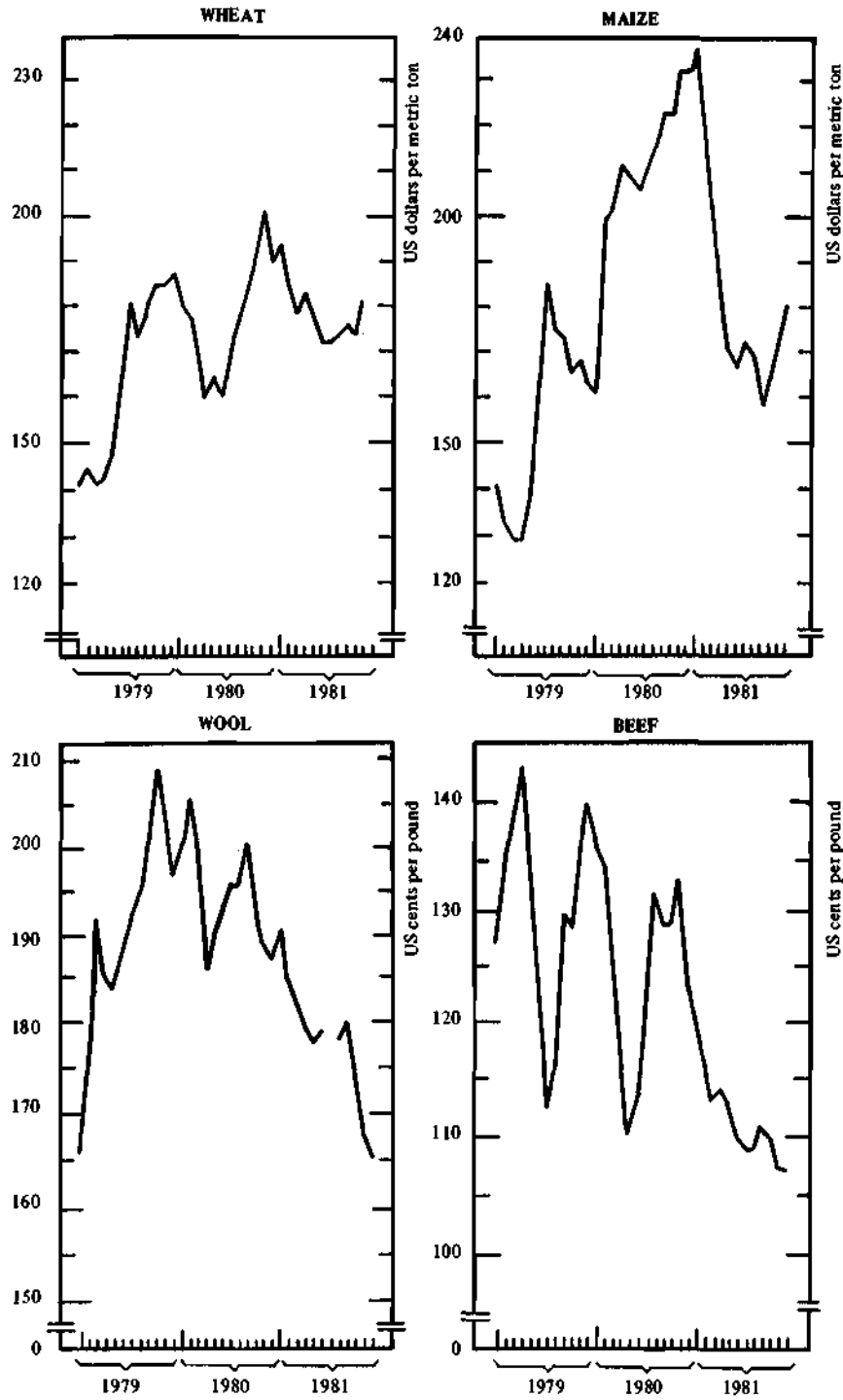
The growth of the volume of imports during this period was much less dynamic in Peru, in spite of the fact that in 1981 the external purchases of that country expanded much more rapidly

Figure 7



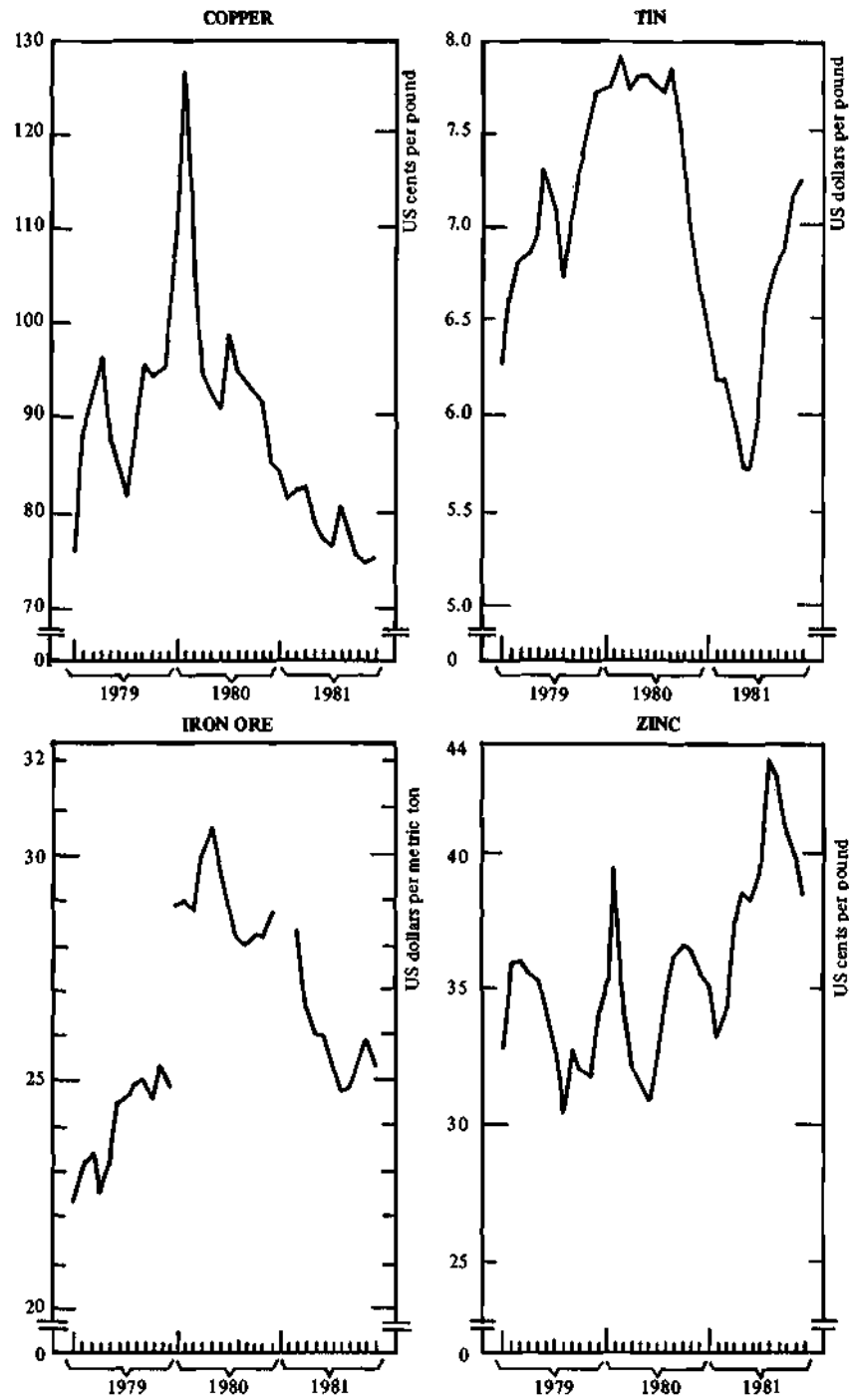
Source: UNCTAD, *Monthly commodity price bulletin*, November 1981.

Figure 7 (continued 1)



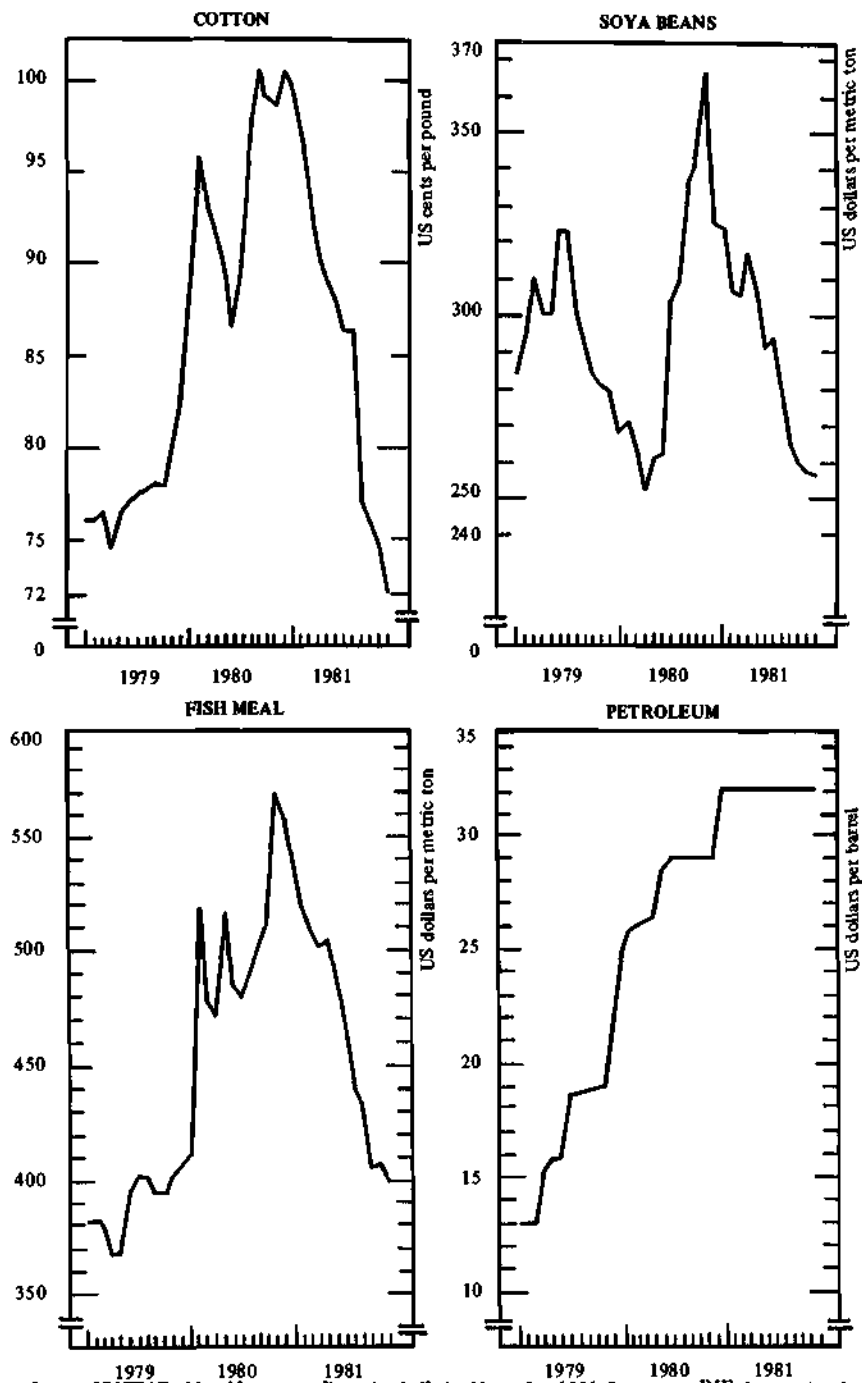
Source: UNCTAD, *Monthly commodity price bulletin*, November 1981.

Figure 7 (continued 2)



Source: UNCTAD, *Monthly commodity price bulletin*, November 1981.

Figure 7 (concluded)



Source: UNCTAD, *Monthly commodity price bulletin*, November 1981. Petroleum, IMF, *International Financial Statistics*, December 1981.

than those of Mexico for the second year running. Because of the sharp contraction in the volume of Peruvian imports in the period 1976-1978, their rapid growth in the following three years basically represented a return to the real levels already achieved in the middle of the past decade, which were not exceeded until as recently as 1981.

By contrast with the intense expansion of the real imports of Mexico and the recuperation of those of Peru, real imports stagnated or declined slightly in the other eight petroleum-exporting economies.

However, the most profound change occurred in the non-oil-exporting countries, where the evolution of imports slowed down markedly in 1981 when, after two years in which their value increased at an annual rate of nearly 32.5%, it decreased slightly in absolute terms. This downturn was partly attributable to the considerably smaller rise in the unit value of their exports in 1981 as a consequence of the drop in the inflation in the industrialized countries and the much more moderate rise in the international price of petroleum. Its main cause, however, was the sudden reversal in the evolution of the volume of imports, which fell by 6.5% in 1981 after having grown at an average rate of 11% in the two preceding years (see table 21).

This downward trend in the volume of imports was due in particular to their evolution in Argentina and Brazil, which together were responsible for nearly 60% of the total imports of

Table 24

LATIN AMERICA: VARIATION IN IMPORTS OF GOODS FOB

(Growth rates)

	Value			Volume			Unit value		
	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a
Latin America	25.6	32.5	6.2	8.2	12.6	2.2	16.0	17.6	3.9
Oil-exporting-countries	16.6	32.6	17.1	5.3	14.5	11.3	10.7	15.8	5.2
Bolivia	12.6	-16.5	-0.7	-6.9	-26.3	-2.3	21.0	13.2	1.6
Ecuador	23.1	5.3	6.9	5.9	-6.0	-0.1	16.2	12.0	7.0
Mexico	51.8	52.9	24.9	35.8	32.5	22.3	11.8	15.4	2.1
Peru	22.2	56.6	25.7	9.9	39.7	24.7	11.2	12.1	0.8
Trinidad and Tobago	26.8	32.3	2.7	18.1	17.3	-0.4	7.4	12.7	3.2
Venezuela	-11.0	13.1	9.4	-17.0	-2.9	-2.2	7.3	16.6	11.9
Non-oil exporting countries	32.4	32.4	-1.2	11.1	10.9	-6.5	19.2	19.4	5.6
Argentina	72.7	55.9	-12.4	40.8	55.2	-14.8	22.7	0.5	2.9
Barbados	31.4	26.6	8.5	13.9	10.4	1.5	15.4	14.7	6.9
Brazil	31.8	27.8	-3.8	9.9	-0.8	-13.3	19.9	28.8	10.9
Colombia	16.9	47.5	8.3	5.9	34.4	2.1	10.3	9.8	6.1
Costa Rica	19.8	9.4	-20.6	4.7	-9.2	-24.7	14.4	20.5	5.5
Chile	45.2	30.5	19.9	18.2	4.7	18.1	22.8	24.6	1.5
El Salvador	-1.3	-3.4	-5.4	-13.7	-18.7	-9.5	14.3	18.8	4.6
Guatemala	9.7	5.1	4.6	-8.0	-11.9	-	18.6	19.2	4.6
Guyana	13.9	33.8	11.0	2.6	4.0	6.9	11.0	28.6	3.8
Haiti	12.8	25.9	8.6	1.1	11.0	5.0	11.6	13.5	3.4
Honduras	19.7	22.0	-7.8	11.8	3.4	-12.9	7.0	18.0	5.8
Jamaica	17.7	17.7	25.9	6.5	-9.0	20.1	10.5	29.4	4.8
Nicaragua	-29.7	132.2	-0.7	-38.7	93.4	-4.6	14.6	20.1	4.1
Panama	28.2	21.7	2.2	5.2	-2.1	-1.7	21.8	24.3	3.9
Paraguay	33.6	17.0	7.3	11.2	-1.3	3.2	20.1	18.5	4.0
Dominican Republic	31.9	33.6	-5.3	19.5	8.7	-8.8	10.4	22.9	3.8
Suriname	7.7	22.8	12.6	-11.8	0.6	8.4	22.0	22.0	3.8
Uruguay	64.3	43.0	-11.9	33.3	12.4	-20.5	23.3	27.3	10.9

Source: CEPAL, on the basis of official data.

^aPreliminary figures.

Table 25

**LATIN AMERICA OIL IMPORTING COUNTRIES: IMPORTS
OF CRUDE PETROLEUM AND PETROLEUM PRODUCTS^a**

	Million of dollars CIF								As a percentage of total imports CIF							
	1970	1973	1974	1978	1979	1980	1981 ^b		1970	1973	1974	1978	1979	1980	1981 ^b	
Total	650	1 610	5 065	7 161	11 235	15 560	16 894		6.9	10.2	18.1	19.8	24.4	25.0	27.0	
Argentina	59	116	385	247	818	654	496		3.5	5.2	10.5	6.4	12.2	6.2	5.4	
Barbados	6	11	31	34	46	54	72		5.1	6.5	15.2	10.9	10.5	10.4	12.8	
Brazil	286	984	3 226	4 631	6 932	10 286	11 470		10.0	14.1	22.8	30.8	35.0	41.2	47.6	
Colombia	9	4	14	206	349	532	620		1.1	0.4	0.3	7.3	10.8	11.2	11.9	
Costa Rica	12	30	63	116	186	199	170		3.8	6.6	8.8	9.8	12.9	13.0	14.0	
Chile	54	69	246	479	889	960	930		5.8	6.3	12.9	16.0	21.1	15.7	12.6	
El Salvador	5	21	52	80	95	159	155		2.3	5.6	9.3	7.8	9.4	16.3	15.1	
Guatemala	16	30	92	152	234	322	390		5.4	7.0	13.1	12.1	15.6	19.9	22.7	
Guyana	11	22	45	65	90	130	138		8.2	12.6	17.7	23.3	28.3	32.8	34.1	
Haiti	3	4	12	26	33	34	58		5.6	4.8	9.6	12.2	14.0	10.1	16.0	
Honduras	15	26	63	74	113	170	160		6.8	9.9	16.1	10.6	13.6	16.8	17.1	
Jamaica	33	71	194	197	311	440	490		6.3	10.7	20.7	22.4	31.4	37.4	33.0	
Nicaragua	12	24	61	89	76	174	202		6.1	7.3	10.9	14.9	21.4	19.6	20.4	
Panama	66	89	274	228	334	421	382		18.5	18.2	34.3	24.2	27.8	28.0	25.2	
Paraguay	11	13	50	84	125	154	111		14.4	10.7	25.3	21.9	24.0	25.6	18.5	
Dominican Republic	19	48	116	223	322	416	547		6.2	9.8	15.0	22.6	26.5	25.8	32.8	
Uruguay	33	48	151	230	282	455	503		14.2	16.1	30.3	32.1	24.0	27.0	31.5	

Source: 1970 to 1979: United Nations, *Yearbook of International Trade Statistics*, 1980 and 1981; International Monetary Fund, *International Financial Statistics*; Latin American Integration Association (ALADI) and CEPAL, on the basis of official data.

^aThe series comprises the items coming under SITC (Rev. 1) and therefore excludes natural gas (Division 34).

goods by non-petroleum-exporting countries in 1980. In Argentina, where the volume of imports had more than doubled during the two preceding years alone, it fell by 15% in 1981 as a result primarily of the contraction of domestic economic activity and of the sharp and continuous devaluations of the peso. The decline in the national product and all the measures adopted to alleviate the external imbalance were also important causes for the drop of 13% shown in 1981 in the volume of imports of Brazil, which had already fallen slightly in 1980.

In relative terms, however, the most marked drops in the volume of external purchases occurred in Costa Rica and Uruguay; in Costa Rica this variable fell by nearly 25% owing to the decline in domestic economic activity and to the fact that the effective real exchange rate nearly doubled in 1981. In Uruguay, imports of goods fell by 21% in real terms as a consequence of the decline in the domestic demand and of the sizeable inventories of imported merchandise which had accumulated over the two preceding years. Slower economic growth and difficulties in making external payments were also responsible for the decrease in the volume of imports in the other Central American countries, while slackness in economic activity caused a drastic decline in the growth rate of the volume of imports in Colombia.

Thus, in 1981, the volume of imports of goods grew rapidly only in Chile (18%) and in Jamaica. In the former country, their expansion was stimulated primarily by the maintenance of an extraordinarily low exchange rate and to a lesser extent by the rapid expansion of economic activity during the first half of the year. Jamaica, for its part, managed to increase the volume of its external purchases by 20% because it was able to rely in a much more abundant supply of external financing than in previous years.

In addition, because of the much smaller rise in the international price of hydrocarbons in 1981 and also as a result of the measures adopted in many non-oil-exporting countries to contain the increase in imports and of the loss of economic dynamism felt in the majority of them, the

growth rate of imports of crude oil and petroleum products also plunged. Their value, which had more than doubled in the two preceding years, grew by barely 8.5% in 1981. Moreover, in seven of the 17 countries considered here, the value of purchases of hydrocarbons declined. However, the share of hydrocarbons in the total value of imports continued to increase in 11 of these countries, reaching extraordinarily high levels of between 20% and 25% in Nicaragua, Guatemala and Panama; close to 33% in Guyana, Jamaica, and the Dominican Republic and Uruguay and almost 50% in Brazil (see table 25).

(c) *The purchasing power of exports and the terms of trade*

After demonstrating notable and persistent growth between 1976 and 1980, a period during which the purchasing power of exports of goods and services rose by 62%, this variable showed almost total stagnation in 1981 (see table 26). This happened in spite of the fact that during this year, as noted above, the volume of exports of goods grew by 10% thereby greatly surpassing their growth the preceding year. Thus, the sole cause for the unsatisfactory growth of the purchasing power of exports in 1981 was the deterioration of 7% in the terms of trade.

Unlike what had occurred in the two preceding years (during which the terms of trade improved markedly in the petroleum-exporting countries while deteriorating in the other economies of the region), in 1981 they deteriorated in both groups of countries.

However, the drop was much less substantial in the petroleum-exporting economies (-1%) than in the others (-12%) (see table 27).

In the latter group, the terms of trade deteriorated in all the countries with the sole exceptions of Guyana, Paraguay, Dominican Republic and Suriname, and this deterioration came on the heels of the drops already recorded in the three preceding years. This meant that the total deterioration in the terms of trade since 1977 amounted to 30%, bringing this index down to the lowest level ever recorded. In actual fact, the terms of trade of this group of countries was such that the average performance of this indicator during the 3-year period 1979-1981 was the same as that recorded during the 1931-1933 triennium, at the height of the Great Depression.

Table 26

**LATIN AMERICA: PURCHASING POWER OF EXPORTS
OF GOODS AND SERVICES**

(1970 = 100)

Year	Latin America		Oil-exporting countries ^a		Non-oil-exporting countries ^b	
	Index	Variation	Index	Variation	Index	Variation
1970	100.0	3.3	100.0	-1.8	100.0	5.7
1971	99.6	-0.4	110.4	10.4	97.0	-3.0
1972	109.0	9.5	109.7	-0.6	108.8	12.2
1973	132.4	21.5	150.0	36.7	128.1	17.7
1974	156.9	18.5	289.5	93.0	124.8	-2.6
1975	133.6	-14.8	213.7	-26.2	114.3	-8.4
1976	144.3	8.0	219.5	2.7	129.4	13.2
1977	159.1	10.2	226.5	3.2	150.7	16.5
1978	163.7	2.8	238.3	5.2	152.2	1.0
1979	193.4	18.1	317.1	33.1	161.1	5.8
1980	216.4	11.9	386.9	22.0	163.5	1.5
1981 ^c	218.1	0.8	395.8	2.3	161.7	-1.1

Source: CEPAL, on the basis of official data.

^aFrom 1970 to 1975, includes Bolivia, Ecuador, Trinidad and Tobago and Venezuela; from 1976 on, includes also Mexico and Peru.

^bFrom 1976 on, excludes Mexico and Peru.

^cPreliminary figures.

On the other hand, in the oil-exporting countries, the terms-of-trade index reached a very high level (only in 1980 was it slightly higher), which was five times as high as the level reached by the other economies of the region (see table 27).

As a consequence of the drop in the terms of trade and in spite of the impressive growth in the volume of their exports, the purchasing power of the exports of the non-petroleum-exporting countries fell for the first time since 1975. In the petroleum-exporting countries, on the other hand, the purchasing power of external purchases increased slightly. However, not only was this the smaller increase in the past six years but it was due primarily to the substantial growth shown by the purchasing power of exports of Mexico. In the other five countries in this group, this variable fell by between 5% in Ecuador and Venezuela and 25% in Peru.

2. The balance of payments

(a) *The current account*

As a result of the slightly bigger increase in the value of exports of goods (6.9%) than in the value of imports (6.2%), the deficit in merchandise trade showed a moderate drop in 1980. However, since at the same time net payments for non-factor services rose by close to 20%, Latin America's trade deficit rose again, from US\$ 10 750 million in 1980 to US\$ 11 900 million in 1981 (see table 28).

As in past years, these global changes were due to the conflicting trends in the growth of the foreign trade of the six petroleum-exporting countries and that of the other economies of the region.

In the non-petroleum-exporting countries, the negative balance of trade in goods was reduced by 35% because of the determined efforts they made to contain the growth of their imports (which declined by 1% in value and 6.5% in volume) and to increase their exports, whose value rose by 5% thanks to the exceptional expansion of 12% in their volume and in spite of the decline in the prices of nearly all the export commodities. Since at the same time the non-petroleum-exporting

Table 27

LATIN AMERICA: TERMS OF TRADE (GOODS)

(1970 = 100)

Year	Latin America		Oil-exporting countries ^a		Non-oil-exporting countries ^b	
	Index	Variation	Index	Variation	Index	Variation
1970	100.0	3.3	100.0	-1.7	100.0	4.6
1971	97.0	-3.0	112.4	12.4	92.8	-7.2
1972	99.8	2.9	110.3	-1.9	97.1	4.7
1973	113.2	13.4	139.9	26.9	107.2	10.3
1974	130.7	15.4	306.3	119.0	99.3	-7.3
1975	114.7	-12.2	284.1	-7.3	88.4	-11.0
1976	118.9	3.7	288.9	1.7	93.4	5.6
1977	126.4	6.3	291.2	0.8	102.9	10.2
1978	113.9	-9.9	257.5	-11.6	92.7	-9.9
1979	118.9	4.4	311.8	21.1	86.7	-6.5
1980	124.8	4.9	367.6	17.9	82.1	-5.3
1981 ^c	116.0	-7.0	363.2	-1.2	72.5	-11.6

Source: CEPAL, on the basis of official data.

^a From 1970 to 1975, includes, Bolivia, Ecuador, Trinidad and Tobago and Venezuela; from 1976 on, includes also Mexico and Peru.

^b From 1976 on, excludes Mexico and Peru.

^c Preliminary figures.

Table 28

LATIN AMERICA: TRADE BALANCE

(Millions of dollars)

	Export of goods FOB			Import of goods FOB			Merchandise trade balance			Net services payments ^b			Trade balance		
	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a
Latin America	70 910	91 973	98 322	70 411	93 285	99 033	499	-1 312	-712	6 453	9 441	11 172	-5 950	-10 752	-11 877
Oil-exporting countries	31 561	45 185	49 081	28 328	37 572	44 010	3 233	7 613	5 071	2 680	4 181	6 124	553	3 432	-1 056
Bolivia	762	942	909	815	680	675	-53	262	234	176	175	184	-229	87	50
Ecuador	2 170	2 510	2 568	2 097	2 207	2 359	73	303	209	353	540	493	-280	-237	-283
Mexico	9 302	16 241	19 837	12 132	18 551	23 166	-2 831	-2 310	-3 329	-1 102	-194	1 093	-1 729	-2 116	-4 422
Peru	3 519	3 899	3 218	1 955	3 062	3 849	1 564	837	-631	-35	74	304	1 599	763	-937
Trinidad and Tobago	1 649	2 536	2 468	1 325	1 753	1 581	324	783	887	67	120	90	258	663	797
Venezuela	14 159	19 057	20 080	10 004	11 318	12 380	4 155	7 739	7 700	3 221	3 466	3 960	934	4 273	3 740
Non-oil-exporting countries	39 349	46 788	49 241	42 083	55 713	55 023	-2 34	-8 925	-5 782	3 773	5 260	5 048	-6 503	-14 184	-10 821
Argentina	7 810	8 022	9 145	6 026	9 395	8 232	1 784	-1 373	913	1 431	1 894	1 667	353	-3 267	-751
Barbados	132	189	175	379	479	520	-247	-291	-345	-203	-251	-250	-45	-40	-95
Brazil	15 244	20 132	23 276	17 961	22 955	22 080	-2 717	-2 823	1 196	2 316	3 121	2 839	-5 036	-5 944	-1 641
Colombia	3 507	4 092	3 127	2 996	4 420	4 789	510	-328	-1 661	-136	154	64	646	-482	-1 725
Costa Rica	942	1 001	1 030	1 257	1 375	1 092	-315	-374	-62	109	88	37	-425	-461	-98
Chile	3 835	4 705	3 960	4 190	5 469	6 559	-355	-764	-2 599	264	391	888	-619	-1 155	-3 486
El Salvador	1 224	969	792	939	907	858	286	62	-66	130	102	103	156	-40	-169
Guatemala	1 221	1 520	1 304	1 402	1 473	1 540	-180	47	-236	139	262	312	-320	-214	-548
Guyana	293	389	346	289	386	429	4	3	-83	53	87	76	-49	-84	-159
Haiti	138	212	170	234	295	320	-96	-83	-150	39	62	65	-135	-145	-215
Honduras	750	83	820	783	956	881	-33	-121	-61	65	76	75	-92	-198	-136
Jamaica	818	965	980	883	1 039	1 308	-65	-74	-328	-48	-72	-40	-17	-2	-288
Nicaragua	616	451	500	389	903	897	227	-452	-397	67	71	82	160	-523	-479
Panama	334	373	339	1 105	1 345	1 374	-771	-971	-1 035	-532	-884	-857	-239	-88	-178
Paraguay	385	400	400	577	675	725	-193	-275	-325	-8	-47	-21	185	-228	-304
Dominican Republic	869	962	1 188	1 138	1 520	1 439	-269	-558	-251	81	90	21	-349	-647	-272
Suriname	444	514	474	370	454	511	74	60	-37	77	109	100	-3	-49	-137
Uruguay	788	1 059	1 215	1 166	1 668	1 470	-378	-610	-255	-72	8	-113	-306	-618	-142

Source: CEPAL, on the basis of official data.

^aPreliminary figures.^bExcluding net payments of profits and interest.

Table 29

LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			Net payments of profits and interest			Balance on current account ^b			Balance on capital account ^c			Overall balance ^d		
	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a	1979	1980	1981 ^a
Latin America	-5 950	-10 752	-11 877	14 275	18 374	27 358	-19 797	-28 699	-38 786	26 203	27 158	39 233	6 406	-1 542	447
Oil-exporting countries	553	3 432	-1 056	5 874	7 159	10 091	-5 594	-4 035	-11 458	8 370	6 302	14 495	2 776	2 267	3 037
Bolivia	-229	87	50	181	261	320	-399	-166	-257	418	19	268	19	-147	11
Ecuador	-280	-237	-283	356	535	833	-635	-772	-1 116	679	1 042	746	44	270	-371
Mexico	-1 729	-2 116	-4 422	3 973	5 736	8 699	-5 570	-7 721	-12 997	5 886	8 627	14 083	316	906	1 086
Peru	1 599	763	-937	936	835	850	663	-72	-1 786	414	726	1 097	1 076	653	-689
Trinidad and Tobago	258	663	797	251	200	130	-24	433	637	368	200	-83	344	633	555
Venezuela	934	4 273	3 740	177	-407	-740	371	4 263	4 060	606	-4 311	-1 615	977	-48	2 445
Non-oil-exporting countries	-6 503	-14 184	-10 821	8 401	11 215	17 267	-14 203	-24 664	-27 328	17 834	20 855	24 738	3 630	-3 809	-2 590
Argentina	353	-3 267	-751	923	1 531	3 303	-535	-4 774	-4 057	4 760	2 176	864	4 225	-2 598	-3 193
Barbados	-45	-40	-95	11	8	10	-39	-27	-84	52	46	105	13	19	21
Brazil	-5 036	-5 944	-1 641	5 461	7 032	10 290	-10 482	-12 848	-11 739	7 583	9 379	12 360	-2 900	-3 469	621
Colombia	646	-482	-1 725	256	260	334	490	-644	-1 969	969	1 702	2 393	1 459	1 058	423
Costa Rica	-425	-461	-98	146	216	303	-554	-658	-374	436	749	325	-119	92	-50
Chile	-619	-1 155	-3 486	676	929	1 428	-1 205	-2 024	-4 869	2 261	3 344	5 008	1 056	1 320	139
El Salvador	156	-40	-169	78	94	86	123	-117	-239	-257	43	197	-134	-75	-43
Guatemala	-320	-214	-548	13	59	103	-209	-165	-562	172	-86	146	-37	-251	-416
Guyana	-49	-84	-159	34	43	57	-83	-126	-214	26	84	204	-57	-43	-10
Haiti	-135	-145	-215	13	14	13	-117	-133	-185	132	103	135	15	-29	-50
Honduras	-92	-198	-136	120	144	17	-205	-334	-295	225	256	219	20	-78	-77
Jamaica	-17	-2	-288	-203	265	245	-150	-186	-438	-16	225	248	-165	39	-190
Nicaragua	160	-523	-479	72	89	93	90	-611	-571	-85	499	682	5	-112	111
Panama	-239	-88	-178	81	145	181	-357	-286	-422	330	297	441	-27	11	20
Paraguay	-185	-228	-304	28	59	85	-210	-284	-387	372	436	427	162	152	40
Dominican Republic	-349	-647	-272	188	210	295	-360	-675	-378	358	708	416	-3	33	38
Suriname	-3	-49	-137	41	16	14	-37	-58	-119	64	84	109	27	26	-10
Uruguay	-306	-618	-142	58	100	286	-363	-716	-427	453	811	462	91	95	35

Source: CEPAL, on the basis of official data.

^aPreliminary figures.^bIncluding net private transfers payments.^cIncluding long- and short-term capital, official transfer payments and errors or omissions.^dCorresponds to variation in international reserves, including counterpart items.

countries managed to reduce their net payments for services slightly, their trade deficit was reduced from nearly US\$ 14.2 billion in 1980 to US\$ 10.8 billion in 1981.

In the petroleum-exporting countries, the balance of trade showed a very different pattern of growth in that the surplus of US\$ 3.4 billion generated in 1980 was replaced in 1981 by a negative balance of somewhat more than US\$ 1 billion. This downturn was due partly to the much more rapid expansion in this group of countries in the value of imports of merchandise (17%) than in exports (9%) and also to the considerable increase also shown in net payments for services.

As in 1980, the increase in Latin America's trade deficit was accompanied by the very intensive growth of net payments of profits and interests. Mainly as a consequence of the appreciable rise in the interest rates in the international financial markets for the fourth year running and the increase in the external debt of Latin America, these disbursements, which had already risen by US\$ 4 billion in 1980, increased by US\$ 9 billion in 1981. Thus, they reached the unprecedented amount of US\$ 27.3 billion, nearly double the amount recorded only two years previously and well over double the value of the deficit in trade in goods and services recorded in 1981 (see table 29).

In the non-oil-exporting countries, where these financial remittances grew with particular intensity, their total more than offset the effects of the adjustment made in the real sphere by expanding exports and containing imports. Because of this, the deficit in the balance of payments on current account rose from close to US\$ 24.7 billion in 1980 to US\$ 27.3 billion in 1981.

As for the petroleum-exporting economies, the fact that their payments of profits and interests were higher reinforced the consequences of the downturn shown in trade in goods and services, with the result that the negative balance on current account nearly trebled, rising from US\$ 4 billion in 1980 to US\$ 11.5 billion in 1981.

As a result of these changes and in spite of the big efforts made by many of the non-oil-exporting countries to reduce the imbalance in their foreign trade, Latin America's deficit on current account showed an unprecedented increase, which brought it to a historic maximum of US\$ 39 billion —35% higher than the negative balance in 1980.

Because of this enormous growth in the deficit on current account, in 1981 there was also a marked increase in the difference between this deficit and the value of exports of goods and services. This coefficient, which fluctuated between 20% and 28% between 1976 and 1978, rose to nearly 33% in 1981 thereby slightly exceeding the level recorded in 1975 at the end of the international recession in the middle of the past decade (see table 30).

In absolute terms the largest deficit was that of Mexico. This deficit, which was caused by the doubling of the negative external trade balance and by the marked increase in net payments of interests and profits, rose to US\$ 13 billion, thereby exceeding the deficit recorded in 1980 by 68%. On the other hand, the negative balance of Brazil's transactions, which had been the highest in Latin America the preceding year, fell from US\$ 12.8 billion in 1980 to US\$ 11.7 billion in 1981. This change came as a result, primarily, of the upturn in the balance of trade in goods, which, after showing a deficit of US\$ 2.8 billion in 1980, generated a surplus of US\$ 1.2 billion in 1981. The same thing happened in Argentina, where the replacement of a negative balance of trade in merchandise of close to US\$ 1.4 billion in 1980 by a surplus of over US\$ 950 million in 1981 reduced the deficit on current account by US\$ 700 million, in spite of the fact that at the same time net payments of interests and profits more than doubled (see table 29).

By comparison with the value of exports of goods and services, the most negative results were, however, recorded by Nicaragua, Chile, Haiti and Paraguay. In the first of these countries, the deficit on current account exceeded the total value of exports for the second year running, while in Chile it amounted to nearly 90% of the external sales of goods and services and was over twice as high as the deficit recorded the preceding year.

The relative magnitude of the deficit on current account was also high, although considerably lower, in Brazil, Mexico, Colombia and Peru, countries in all of which it was the equivalent of close to 46% of the value of exports. However, whereas in Brazil this figure was much lower than that recorded the preceding year, in Mexico and, above all, in Colombia and Peru, it was considerably higher (see table 30).

The general trend in the direction of a greater external imbalance was also reflected in the fact that in 1981 the deficit on current account was not lower than 20% of the value of the exports of any economy of the region, with the sole exception of Barbados (15%) and Venezuela and Trinidad and Tobago, which, as in 1980, were the only countries which achieved surpluses in their current transactions.

(b) *The capital account*

In 1980 the net inflow of capital in Latin America stepped up vigorously. Having increased strongly and persistently throughout the 1970s but having risen by only somewhat more than 3% in 1980, it grew by 45% in 1981, reaching the unprecedented amount of over US\$ 39.2 billion. Not only was the increase in the inflow of loans and investments intense, it was also generalized, occurring in two-thirds of the countries under consideration and in the petroleum-exporting economies as well as in the other countries of the region (see table 29).

The largest amount of net external resources was received by Mexico, which in 1981 captured funds valued at nearly US\$ 14.1 billion. Not only was this 63% more than the amount received the

Table 30

**LATIN AMERICA: RELATION BETWEEN THE BALANCE OF
PAYMENTS DEFICIT ON CURRENT ACCOUNT AND THE VALUE
OF EXPORTS OF GOODS AND SERVICES^a**

(Percentages)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^b
Latin America	25.2	20.1	11.9	15.7	31.9	22.5	19.7	28.2	22.9	25.8	32.7
Oil-exporting countries	15.3	14.2	7.0	-11.5	17.7	19.7	26.0	38.0	14.2	7.3	19.7
Bolivia	3.7	5.5	-0.7	-21.3	28.8	10.3	18.8	50.2	46.6	15.9	25.2
Ecuador	61.9	23.3	1.9	-1.7	21.5	2.1	23.7	42.9	26.1	27.2	38.5
Mexico	28.1	25.7	30.9	47.8	67.1	50.2	24.0	30.3	36.9	32.9	45.5
Peru	6.5	5.6	22.4	40.8	93.2	71.5	45.8	10.2	-16.2	1.6	44.9
Trinidad and Tobago	42.2	26.6	5.1	-23.9	-23.0	-15.7	-19.5	-3.3	1.2	-14.5	-7.5
Venezuela	0.3	2.8	-17.5	-50.1	-23.5	-3.3	30.8	58.1	-2.5	-21.3	-19.4
Non-oil-exporting countries	29.9	23.4	18.7	42.7	50.7	31.6	18.3	22.7	28.9	38.4	45.6
Argentina	18.4	9.6	-18.9	-2.6	36.8	-14.2	-19.6	-24.6	5.8	48.3	37.4
Barbados	34.9	38.2	38.3	27.0	20.1	33.0	21.6	10.5	9.1	4.9	15.4
Brazil	50.4	39.2	32.4	87.4	74.3	60.4	39.3	51.5	62.6	58.8	46.0
Colombia	49.5	17.7	5.0	20.6	5.9	-6.9	-12.6	-7.4	-10.8	12.8	46.8
Costa Rica	41.2	29.9	26.9	49.9	36.5	28.9	23.4	36.1	50.5	54.9	30.7
Chile	17.8	48.3	19.7	12.9	27.1	-5.5	21.8	37.8	26.1	33.9	88.4
El Salvador	5.7	-2.7	11.5	26.3	16.0	-2.2	-1.9	25.2	-9.1	10.6	25.6
Guatemala	14.2	2.6	-1.6	14.5	8.3	8.1	2.8	20.9	14.2	9.5	38.5
Guyana	4.7	9.3	41.4	3.3	6.2	48.1	32.2	7.3	26.7	30.8	58.3
Haiti	2.7	1.7	13.2	36.3	38.1	37.1	40.3	39.7	52.8	45.7	72.5
Honduras	12.3	6.8	12.9	37.0	36.3	25.2	24.0	24.7	24.5	35.9	32.2
Jamaica	32.2	32.6	40.6	8.4	27.4	34.9	4.9	5.5	12.8	13.6	31.0
Nicaragua	21.3	-6.0	30.3	61.6	44.2	7.7	26.7	4.7	-13.4	121.4	104.3
Panama	25.9	30.9	29.7	37.2	25.1	27.8	23.0	29.4	36.2	17.9	26.6
Paraguay	28.8	8.7	13.0	26.3	38.3	29.7	15.2	27.2	40.9	50.1	68.9
Dominican Republic	45.0	11.8	19.2	33.2	7.7	15.8	14.2	38.1	31.7	53.1	24.9
Suriname	10.9	9.0	14.2	7.3	14.7	7.2	20.4	5.9	7.2	9.5	21.1
Uruguay	28.7	-13.5	-4.4	27.3	35.9	11.8	21.2	14.5	30.4	46.9	22.5

Source: CEPAL, on the basis of official figures.

^aNegative figures indicate balance-of-payments surplus on current account.

^bPreliminary figures.

preceding year, it was also higher than the close to US\$ 12.4 billion received in 1981 by Brazil, which up to the preceding year, had been the economy towards which the heaviest flow of loans and investments had normally been directed. The net inflow of capital also increased very intensively in Chile, Colombia and Peru. In the first of those countries, capital resources rose for the second year running by 50%, amounting to over US\$ 5 billion. The relative increase in the net inflow of capital was similar in Peru, although its absolute value (US\$ 1.1 billion) was much lower than in Chile. Although the inflow showed somewhat slower growth in Colombia, it was still very high (40%), the net amount of the loans and investments received coming close to US\$ 2.4 billion.

On the other hand, the flow of external resources declined by nearly 30% in Ecuador, by over 40% in Uruguay and by close to 60% in Costa Rica and Argentina, the latter two countries having suffered large-scale recessions in 1981.

As a consequence of the much greater volume of external financing received and in spite of the marked increase recorded in the deficit on current account, the balance of payments for the region as a whole experienced a downturn of US\$ 2 billion. After having closed in 1980 with a deficit of close to US\$ 1 550 million, a small surplus of US\$ 450 million was generated in 1981. This surplus was, however, much smaller than the surpluses yielded throughout the 1970s and was even smaller than the surplus of US\$ 600 million achieved in 1975 at the end of the previous recession in the world economy.

Moreover, the transition from a deficit situation in 1980 to a surplus in 1981 was first and foremost due to the profound changes in the results of the balance of payments in Venezuela and Brazil. In the latter country, the negative balance of close to US\$ 3.5 billion recorded in 1980 was converted into a surplus of somewhat more than US\$ 600 million in 1981 as a result of the aforementioned reversal in trade in goods and of the fact that many more foreign resources were captured. Venezuela, whose balance of payments had closed with a small deficit in 1980 because of a very substantial net outflow of capital, achieved a surplus in 1981 amounting to close to US\$2.5 billion. During 1981, Bolivia and Nicaragua also managed to effect a reversal in their negative balances of the previous year, and Mexico, Barbados, Panama and the Dominican Republic increased their surpluses slightly (see table 29).

However, in the majority of the economies of the region, the year 1981 was one in which the balance-of-payments situation deteriorated. This deterioration was especially marked in Peru, Chile, Colombia, Ecuador and Argentina. In the first of these countries, the surplus of US\$ 650 million achieved in 1980 was converted into a deficit of nearly US\$ 700 million, owing to the combined effect of the sharp drop in the value of exports (-18%) and of another and even greater increase in the value of imports (26%). For its part, Chile, which in 1980 had obtained the highest surplus in the balance of payments in the region, saw that surplus decline from over US\$ 1.3 billion in that year to only US\$ 140 million in 1981, owing primarily to the sharp rise in imports and to the marked growth of net payments of interest. For its part, Colombia, whose balance-of-payments surplus of over US\$ 1 billion was the second highest in the region in 1980, achieved a surplus of little more than US\$ 400 million in 1981. As in Chile, this reduction occurred in spite of the fact that in 1981 the net inflow of capital rose considerably and was due primarily to the marked drop in the value of exports (-24%). The worsening in the balance-of-payments situation was even more notable in Ecuador, whose international transactions resulted in a deficit for the first time since 1975, in an amount which, moreover, was very high, and in Argentina, where the dramatic fall in the net intake of external resources resulted in an increase in the balance-of-payments deficit, which rose from US\$ 2.6 billion in 1980 to nearly US\$ 3.2 billion in 1981.

During 1981, large balance-of-payments deficits in addition to those recorded in Argentina, Peru and Ecuador, were reported by Guatemala (in the unprecedented amount of over US\$ 400 million), Jamaica, which had obtained a small surplus in 1980, and Honduras, which for the second year running had a negative balance of close to US\$ 80 million.

(c) *International reserves*

Despite the fact that, as has been mentioned above, the year closed with a small surplus on Latin America's balance of payments, the value of official international reserves dropped by 9% in 1981. This decline, which may be attributed mainly to the decline that year of the international price of gold, also affected the great majority of the economies of the region. Only the Bahamas, Barbados, Brazil, Mexico, Paraguay, the Dominican Republic, Suriname and Trinidad and Tobago managed to increase their reserves in 1981, whereas reserves declined in all the other Latin American countries (see table 31).

The decline especially marked in the Central American countries, in most of which official reserves at the end of 1981 were not sufficient to finance even one month's worth of imports of goods and services. The decline was also very sharp in Argentina —where reserves dropped for the second year in a row— and in Peru and Ecuador. Nevertheless, because Argentina had accumulated a substantial amount of reserves between 1977 and 1979, at the end of 1981 it had enough to pay for almost six months' worth of imports. This ratio was surpassed only by Trinidad and Tobago,

Table 31

**LATIN AMERICA: EVOLUTION OF OFFICIAL
INTERNATIONAL RESERVES^a**

(Millions of dollars)

	End-year balances					Growth rates		
	1973	1975	1979	1980	1981	1979	1980	1981
Latin America	15 544	21 321	48 772	56 653	51 454	26.8	16.2	-9.2
Oil-exporting countries	5 613	14 018	18 133	24 703	24 641	37.4	36.2	-0.3
Bolivia	73	190	367	487	410	33.5	32.7	-15.8
Ecuador	248	314	849	1 265	852	18.7	49.0	-32.6
Mexico	1 611	1 973	2 544	4 213	5 111	33.3	65.6	21.3
Peru	607	587	1 384	2 355	1 465	453.6	70.2	-37.8
Trinidad and Tobago	47	751	2 155	2 813	3 370	18.9	30.5	19.8
Venezuela	3 027	10 203	10 834	13 570	13 433	31.5	25.3	-1.0
Non-oil-exporting countries	9 931	7 303	30 639	31 950	26 813	21.2	4.3	-16.1
Argentina	1 328	638	10 728	9 375	5 276	85.2	-12.6	-43.7
Bahamas	43	53	83	92	100	38.3	10.8	8.7
Barbados	32	40	55	76	100	5.8	38.2	31.6
Brazil	6 489	4 194	9 487	6 912	7 613	-21.8	-27.1	10.1
Colombia	558	656	4 555	6 525	6 289	65.9	43.2	-3.6
Costa Rica	54	24	88	142	41	-50.3	61.4	-71.1
Chile	161	-121	2 226	4 036	3 947	120.0	81.3	-2.2
El Salvador	88	164	296	385	265	-18.9	30.1	-31.2
Guatemala	239	363	856	762	279	1.7	-11.0	-63.4
Guyana	9	101	-35	-73	-79			
Haiti	17	-1	16	2	-5	68.0	-87.5	
Honduras	42	78	213	145	70	13.9	-31.9	-51.7
Jamaica	111	111	-288	-204	-385			
Nicaragua	103	107	7	...	...	-86.9	...	...
Panama	42	13	81	98	26	-16.5	21.0	-73.5
Paraguay	57	115	620	783	822	12.5	26.3	5.0
Dominican Republic	92	127	150	233	262	19.0	55.3	12.4
Suriname	70	115	186	222	232	31.0	19.4	4.5
Uruguay	396	526	1 315	2 439	1 960 ^b	32.8	85.5	-12.8 ^c

Source: International Monetary Fund, *International Financial Statistics*, August 1982.

^aPlus monetary golds valued at London prices per refined ounce minus the use of IMF credit.

^bPrices at end of June.

^cVariation from June 1980.

Table 32

**LATIN AMERICA: RELATION BETWEEN OFFICIAL INTERNATIONAL
RESERVES AND IMPORTS OF GOODS AND SERVICES**

	1973	1975	1976	1977	1978	1979	1980	1981 ^a
Latin America	0.51	0.40	0.43	0.46	0.52	0.52	0.46	0.38
Oil-exporting countries	0.49	0.65	0.54	0.50	0.40	0.46	0.48	0.40
Bolivia	0.27	0.31	0.31	0.39	0.29	0.34	0.51	0.42
Ecuador	0.49	0.24	0.39	0.38	0.33	0.32	0.43	0.27
Mexico	0.31	0.23	0.12	0.18	0.17	0.15	0.16	0.15
Peru	0.41	0.19	0.09	0.11	0.12	0.55	0.61	0.30
Trinidad and Tobago	0.09	0.88	1.01	1.28	1.28	1.18	1.21	1.39
Venezuela	0.90	1.44	1.03	0.72	0.55	0.77	0.86	0.78
Non-oil-exporting countries	0.51	0.23	0.35	0.43	0.61	0.56	0.44	0.37
Argentina	0.51	0.15	0.40	0.70	1.15	1.21	0.71	0.45
Bahamas	0.08	0.11	0.09	0.12	0.09	0.10	0.09	0.09
Barbados	0.16	0.16	0.10	0.09	0.14	0.12	0.13	0.15
Brazil	0.83	0.29	0.44	0.50	0.73	0.44	0.25	0.28
Colombia	0.39	0.32	0.55	0.73	0.80	1.16	1.18	1.02
Costa Rica	0.11	0.03	0.08	0.16	0.14	0.06	0.09	0.03
Chile	0.10	-0.06	0.05	0.09	0.28	0.42	0.57	0.44
El Salvador	0.20	0.24	0.27	0.26	0.30	0.24	0.32	0.23
Guatemala	0.46	0.42	0.46	0.52	0.51	0.48	0.39	0.13
Guyana	0.04	0.27	0.02	0.01	0.06	-0.10	-0.15	-0.15
Haiti	0.18	-0.01	0.06	0.05	0.16	0.04	-	-0.01
Honduras	0.14	0.17	0.22	0.27	0.24	0.23	0.13	0.07
Jamaica	0.14	0.08	-0.04	-0.06	-0.12	-0.23	-0.14	-0.22
Nicaragua	0.26	0.18	0.23	0.18	0.08	0.01	...	...
Panama	0.07	0.01	0.03	0.02	0.09	0.06	0.06	0.01
Paraguay	0.36	0.41	0.52	0.62	1.04	0.84	0.93	0.89
Dominican Republic	0.16	0.13	0.11	0.14	0.11	0.10	0.12	0.15
Suriname	0.35	0.32	0.36	0.26	0.30	0.36	0.34	0.32
Uruguay	1.08	0.78	0.66	0.78	1.02	0.87	1.14	0.96

Source: CEPAL, on the basis of table 29 and official data.

^aPreliminary figures.

which had sufficient reserves to finance almost 17 months' worth of imports: Colombia and Uruguay, which had reserves equivalent to one year's worth of imports; and Paraguay and Venezuela, whose monetary authorities had international assets enough to cover 90% and 80% respectively of their imports (see table 32).

For the region as a whole, the ratio between total international reserves and the value of imports decreased for the second year in a row and dropped in 1981 to 38%, a figure which is even lower than the one recorded in 1975, when the international crisis of the mid-1970s reached its peak. The coefficient was even lower in the two largest economies of the region: in Brazil it was only 28%, whereas in Mexico it was only 15%, which meant that at the end of 1981 Mexico's reserves would not finance two months' worth of imports.

3. The external debt¹³

In 1981, the increased disequilibrium in the balance-of-payments current account was accompanied by an acceleration of the rate of external indebtedness. Indeed, the public external debt¹⁴ increased by somewhat over 21%, after its growth rate had declined from 30% in 1978 to 18% in 1979 and 12% in 1980. Thus, the total public external debt was almost US\$ 150 million at the end of the year (see table 33).

Table 33
LATIN AMERICA: DISBURSED EXTERNAL PUBLIC DEBT^a

	End-year balance in millions of dollars					Growth rates		
	1973	1975	1979	1980	1981 ^b	1979	1980	1981
Latin America	26 974	44 051	110 079	123 580	149 830	18.3	12.3	21.2
Oil-exporting countries	9 683	17 239	49 255	55 850	73 340	10.5	13.4	31.3
Bolivia	632	799	1 828	2 124	2 540	10.9	16.2	19.6
Ecuador	332	458	2 104	2 671	4 200	32.5	26.9	57.2
Mexico	5 585	11 540	29 174	33 490	48 000	13.8	14.8	43.3
Peru	1 442	3 021	5 922	6 204	6 450	9.6	4.8	4.0
Trinidad and Tobago	151	159	422	494	550	1.0	17.1	11.3
Venezuela	1 541	1 262	9 805	10 867	11 600	42.2	10.8	6.7
Non-oil-exporting countries	17 291	26 812	60 824	67 738	76 490	25.1	11.4	12.9
Argentina	2 783	3 121	8 742	10 285	13 900	28.5	17.7	35.1
Brazil	7 484	13 706	35 478	38 260	41 000	17.2	7.8	7.2
Colombia	1 914	2 348	3 425	4 294	4 950	22.2	25.4	15.3
Costa Rica	249	421	1 274	1 585	2 070	34.8	24.4	30.6
Chile	2 812	3 731	4 977	4 885	4 580	9.2	-1.8	-6.2
El Salvador	107	196	405	509	680	21.3	25.7	33.6
Guatemala	112	164	482	541	710	29.6	12.2	31.2
Guyana	165	291	468	519	620	9.3	10.9	19.5
Haiti	41	57	208	249	280	20.9	19.7	12.4
Honduras	134	264	751	892	1 020	26.2	18.8	14.3
Jamaica	349	690	1 143	1 299	1 160	8.2	13.6	-10.7
Nicaragua	334	598	1 106	1 496	2 040	15.1	35.3	36.4
Paraguay	146	189	561	667	770	22.8	18.9	15.4
Dominican Republic	314	411	864	1 186	1 260	18.2	37.3	6.2
Suriname	-	7	30 ^b	30 ^b	30	-3.2	-	-
Uruguay	347	618	910	1 041	1 420	14.6	14.4	36.4

Source: CEPAL, on the basis of World Bank, *External medium- and long-term public debt: Past and projected amounts outstanding, transactions and payments, 1956-1976*, 4 December 1967; *World debt tables*, 20 October 1978, Vol. I; "External public debt of developing countries and territories", *World debt tables*, December 1981; Inter-American Development Bank, *External public debt of the Latin American countries*, July 1981.

^aThe disbursed external public debt consists of all the commitments actually drawn by public entities or guaranteed by them, payable to non-residents in foreign currency and having an original or subsequently extended term of more than one year.

^bCEPAL, provisional estimates.

¹³Because of the diversity of sources of information used, the figures on external indebtedness considered in this section will not necessarily coincide with those appearing in the chapters on the economic evolution of individual countries in the second part of this *Survey*.

¹⁴This includes the public external debt itself and State-guaranteed private debt.

Table 34

LATIN AMERICA^a: GROSS GLOBAL DISBURSED EXTERNAL DEBT^b

	End year balance, in millions of dollars					Growth rates		
	1973 ^c	1975 ^d	1979	1980	1981 ^e	1979	1980	1981 ^f
Latin America ^c	42 300	69 093	167 321	205 275	257 000	25.4	22.7	25.2
Oil-exporting countries	14 410	26 385	74 804	92 496	121 150	27.4	23.7	31.0
Bolivia	630	784	2 585	2 442	2 800	24.8	-5.5	14.7
Ecuador	420	585	3 754	4 798	6 400	14.8	27.8	33.4
Mexico	8 200	17 014	37 746	50 216	73 700	26.8	33.0	46.8
Peru	1 900	3 924	7 116	7 901	8 500	4.2	11.0	7.6
Trinidad and Tobago	160	170	525	645	850	30.0	22.9	31.8
Venezuela	3 100	3 908	23 078	26 494	28 900	40.9	14.8	9.1
Non-oil-exporting countries	24 640	37 576	91 877	111 746	134 840	24.2	21.6	20.7
Argentina	5 100	5 760	18 299	24 543	30 800	63.7	34.1	25.5
Brazil	11 000	20 091	48 991	57 262	68 000	13.7	16.9	18.8
Colombia	2 900	3 593	5 935	7 310	8 200	33.3	23.2	12.2
Costa Rica	270	462	1 690	2 124	2 600	34.4	25.7	22.4
Chile	3 100	4 072	7 491	9 544	12 400	26.9	27.4	29.9
El Salvador	130	247	798	846	1 000	0.9	6.0	18.2
Guatemala	190	277	983	1 120	1 150	26.0	13.9	2.7
Guyana	170	263	527	565	650	9.1	7.2	15.0
Haiti	50	66	226	269	300	24.9	19.0	11.5
Honduras	170	341	1 130	1 303	1 450	23.1	15.3	11.3
Jamaica	350	657	1 320	1 388	1 200	11.0	5.2	-13.5
Nicaragua	340	493	1 453	1 660	2 200	2.3	14.2	32.5
Paraguay	160	207	727	919	1 150	41.2	26.4	25.1
Dominican Republic	320	398	1 170	1 548	1 800	23.3	32.3	16.3
Suriname	-	17	110	34	40	57.1	-69.1	17.6
Uruguay	390	686	1 027	1 311	1 900	24.8	27.7	44.9

Source: CEPAL, on the basis of World Bank, "External public debt of developing countries", *World Debt Tables*, 15 de November 1980, Vol. 1 and *World Debt Tables*, December 1981; Bank for International Settlements, *Press review*, N° 39, July 1976 and N° 79, April 1977; The maturity distribution of international bank lending, July 1978, July 1979, July 1980 (revised versions), July 1981 and July 1982.

^aExcludes Bahamas, Barbados and Panama because they are international financial centres.

^bIn addition to public and State-guaranteed private external debt, includes unguaranteed long- and short-term debt with financial institutions supplying data to the Bank for International Settlements. Does not include suppliers' credit without official guarantees or the debt with the International Monetary Fund.

^cProvisional estimates by CEPAL.

^dData from the Bank for International Settlements for 1975, is not covered as fully as for 1978, 1980 and 1981.

^eOutstanding claims by commercial banks against the region which cannot be classified by country.

As in the two preceding years, the relative increase in the non-guaranteed debt was even sharper, so that the gross global external debt disbursed increased more rapidly (25%) than the public external debt. Thus, for the fourth year in a row, gross indebtedness increased by more than 20% and, by the end of 1981, amounted to approximately US\$ 257 billion, almost double the total recorded only three years before (see table 34).

Moreover, and contrary to what happened in 1979 and 1980, in 1981 the rate of growth of gross indebtedness was considerably higher than the value of exports of goods and services. Consequently, the ratio between debts and exports rose heavily, to a record of almost 2.2, a coefficient that is 50% higher than it was in 1973, the year preceding the first oil crisis¹⁵ (see table 35). Moreover, since Latin America's international reserves dropped in 1981, the net global

¹⁵This refers to gross global external debt less official international reserves.

Table 35

**LATIN AMERICA^a: RELATION BETWEEN GROSS GLOBAL DISBURSED EXTERNAL DEBT
AND EXPORTS OF GOODS AND SERVICES**

	1973 ^b	1975	1976	1977	1978	1979	1980	1981 ^b
Latin America^c	1.4	1.58	1.80	1.79	2.07	1.96	1.87	2.18
Oil-exporting countries^d			1.64	1.95	2.16	1.88	1.68	2.02
Bolivia	2.2	1.61	1.59	2.34	2.95	3.02	2.34	2.79
Ecuador	0.7	0.53	0.62	1.35	1.92	1.54	1.69	2.19
Mexico	1.7	2.73	3.11	3.24	2.70	2.46	2.12	2.56
Peru	1.4	2.32	2.70	2.84	2.85	1.74	1.70	2.14
Trinidad and Tobago	0.3	0.14	0.09	0.19	0.26	0.25	0.22	0.43
Venezuela	0.6	0.42	0.73	1.06	1.67	1.54	1.33	1.38
Non-oil-exporting countries^d			1.67	1.67	1.98	2.01	2.05	2.34
Argentina	1.4	1.63	1.32	1.19	1.49	1.98	2.47	2.83
Brazil	1.6	2.10	2.49	2.50	3.11	2.93	2.62	2.66
Colombia	1.9	1.66	1.33	1.14	1.13	1.31	1.45	1.96
Costa Rica	0.7	0.78	0.82	1.03	1.25	1.54	1.78	2.17
Chile	2.1	2.22	1.82	1.78	2.01	1.62	1.60	2.26
El Salvador	0.3	0.42	0.36	0.49	0.80	0.57	0.74	1.04
Guatemala	0.4	0.35	0.38	0.45	0.60	0.67	0.64	0.78
Guyana	1.1	0.71	1.13	1.48	1.54	1.69	1.38	1.81
Haiti	0.7	0.62	0.65	0.74	0.86	1.02	0.93	1.26
Honduras	0.6	0.99	1.02	1.24	1.33	1.36	1.40	1.56
Jamaica	0.6	0.60	0.96	1.15	1.03	1.09	0.98	0.80
Nicaragua	1.1	1.10	1.09	1.80	1.96	2.15	3.25	3.94
Paraguay	1.1	0.91	1.09	0.81	1.09	1.32	1.49	1.87
Dominican Republic	0.6	0.39	0.59	0.88	1.15	1.03	1.22	1.17
Suriname	-	0.05	0.03	0.03	0.15	0.21	0.06	0.07
Uruguay	1.0	1.25	1.04	1.06	0.90	0.86	0.86	1.10

Source: CEPAL, on the basis of official data.

^aExcludes Bahamas, Barbados and Panama because they are international financial centres.

^bProvisional estimates by CEPAL.

^cThe total debt includes unclaimed settlements of commercial banks against the region which cannot be classified by country, especially for the period 1973-1976.

^dThe indexes prior to 1976 are not given since Mexico and Peru did not become petroleum exporters until 1976.

external debt disbursed increased at the exceptionally high rate of over 38%, which is well over the already high rate of the two preceding years (see table 36).

In 1981, on the other hand, the growth of short-term indebtedness with commercial banks slowed down somewhat after having increased at an unusually high rate of around 50% in both 1979 and 1980. In relative terms, however, the increase (26%) was even higher; as a result of this and of the sharp increase in both 1979 and 1980, such indebtedness almost tripled over the last three-year period (see table 37).

Naturally, these overall trends in the indebtedness of the region as a whole were the result of the widely varying trends in the value and structure of the debt in the different countries. Thus, while the rate of growth of gross external indebtedness of the oil-exporting countries was quite high, that of the remaining economies of the region declined slightly, as had been the case in 1980. The difference between the two groups of countries was particularly evident in the area of short-term indebtedness with commercial banks, which rose by almost 35% in the six oil-exporting countries and by only 15% in the other economies taken together.

Table 36

LATIN AMERICA^a: NET GLOBAL DISBURSED EXTERNAL DEBT^b

	End-year balance, in million of dollars					Growth rates		
	1973 ^c	1975	1979	1980	1981 ^c	1979	1980	1981 ^c
Latin America ^d	26 873	47 878	118 768	148 888	205 772	24.8	25.4	38.2
Oil-exporting countries	8 797	12 367	56 671	67 793	96 509	24.4	19.6	42.4
Bolivia	557	594	2 218	1 955	2 390	23.4	-11.9	22.3
Ecuador	172	271	2 905	3 533	5 548	13.7	21.6	57.0
Mexico	6 589	15 041	35 202	46 003	68 589	26.3	30.7	49.1
Peru	1 293	3 337	5 732	5 546	7 035	-12.9	-3.2	26.8
Trinidad and Tobago	113	-581	-1 630	-2 168	-2 520			
Venezuela	73	-6 295	12 244	12 924	15 467	50.3	5.6	19.7
Non-oil-exporting countries	14 826	30 379	61 457	80 062	108 253	25.6	30.3	35.2
Argentina	3 772	5 122	7 571	15 168	25 524	40.6	100.3	68.3
Brazil	4 511	15 897	39 504	50 350	60 387	27.7	27.5	19.9
Colombia	2 342	2 883	1 380	785	1 911	-19.3	-43.1	143.4
Costa Rica	216	438	1 602	1 982	2 559	48.3	23.7	29.1
Chile	2 939	4 193	5 265	5 508	8 453	7.7	4.6	53.5
El Salvador	42	83	502	461	735	17.8	-8.2	59.4
Guatemala	-49	-86	127	358	871		181.9	143.3
Guyana	161	162	562	638	729	21.1	13.5	14.3
Haiti	33	67	10	267	305	60.3	27.1	14.2
Honduras	128	263	917	1 158	1 380	25.4	26.3	19.2
Jamaica	239	546	1 608	1 592	1 585	22.7	-1.0	-0.4
Nicaragua	237	386	1 446	1 660	2 200	5.7	14.8	32.5
Paraguay	103	92	107	136	328		27.1	141.2
Dominican Republic	228	271	1 020	1 315	1 538	23.9	28.9	17.0
Suriname	-70	-98	-76	-188	-192			
Uruguay	-6	160	-288	-1 128	-60			

Source: International Monetary Fund, *International financial statistics*, August 1982; CEPAL, on the basis of World Bank, "External public debt of developing countries", *World Debt Tables*, Vol. I November 1980, and World Debt Tables, December 1981.

^aExcludes Bahamas, Barbados and Panama, because they are international financial centres.

^bGross global disbursed external debt minus official international reserves.

^cProvisional estimates by CEPAL.

^dIncludes unclaimed settlements by commercial banks against the region which cannot be classified by country.

Thus, contrary to what happened during the biennium 1974-1975, when the gross global indebtedness of the non-oil-exporting countries rose at a much higher rate (68%) than that of the oil-exporting countries (26%), during the period 1980-1981, the debt of the latter grew more rapidly (62%) than that of the former (47%).¹⁶ This meant that, as an adjustment mechanism, indebtedness was much more available to the non-oil-exporting countries during the international crisis of the mid-1970s than at present, a fact which helps in part to explain the slower growth of these countries during this recent period.

Nevertheless, even within the two groups, there were marked differences in the evolution of indebtedness. For example, the considerable increase in the debt of the oil-exporting countries during the last two years was to a large extent due to the increased credit granted to Ecuador and, especially, to Mexico. In Mexico, the gross global external debt rose by 47% in 1981, after having risen by 33% during 1980; consequently, it almost doubled in only two years. The most important

¹⁶This pattern confirms the fact that external indebtedness is a process which depends on the financial needs of the debtor as well as on his payment capacity and, above all, on the opinion of creditor agencies regarding such payment capacity.

cause for this exceptional increase was the increase in short-term indebtedness with commercial banks, which rose very sharply, increasing more than fivefold between 1978 and 1981 (see tables 34 and 37).

In Ecuador —the Latin American country whose external indebtedness increased most rapidly between 1973 and 1981— the gross global debt rose by one-third in 1981 alone. As a result of this increase and of the meagre 3% increase in 1981 in the value of external sales, the debt-export coefficient rose sharply, from 1.7 in 1980 to 2.2 in 1981.

The gross external debt also grew rapidly, for the third year in a row, in Trinidad and Tobago. Consequently, the debt-export coefficient doubled in only one year; even so, it continued to be the lowest of the region, with the sole exception of that of Suriname.

This was in sharp contrast to the situation of Bolivia, where the gross debt rose by 15% in 1981, but where the debt-export coefficient rose to 2.8, a ratio exceeded only by those of Nicaragua and Argentina.

Table 37

**LATIN AMERICA^a: SHORT-TERM EXTERNAL DEBT
WITH COMMERCIAL BANKS^b**

	End-year balances in millions of dollars				Growth rates		
	1978	1979	1980	1981 ^c	1979	1980	1981 ^c
Latin America	27 627	41 310	60 776	76 331	49.5	47.1	25.6
Oil-exporting countries	14 465	22 133	32 069	43 205	53.0	44.9	34.7
Bolivia	357	522	295	284	46.2	-43.5	-3.7
Ecuador	1 135	1 071	1 492	1 941	-5.6	39.3	30.1
Mexico	4 636	7 583	15 488	24 024	63.6	104.2	55.1
Peru	1 288	1 483	1 961	2 313	15.1	32.2	18.0
Trinidad and Tobago	82	121	56	197	47.6	-53.7	251.8
Venezuela	6 967	11 353	12 777	14 446	63.0	12.5	13.1
Non-oil-exporting countries	13 162	19 177	28 707	33 126	45.7	49.7	15.4
Argentina	2 938	5 972	9 296	9 964	103.3	55.7	7.2
Brazil	6 093	7 536	12 226	14 275	23.7	62.2	16.8
Colombia	1 140	1 916	2 217	2 285	68.1	15.7	3.1
Costa Rica	276	344	565	527	24.6	64.2	-6.7
Chile	981	1 477	2 334	3 642	50.6	58.0	56.0
El Salvador	327	276	218	210	-15.6	-21.0	-3.7
Guatemala	199	236	263	209	18.6	11.4	-20.5
Guyana	57	41	43	40	-28.1	4.9	-7.0
Haiti	3	16	10	20		-37.5	100.0
Honduras	162	251	257	226	54.9	2.4	-12.1
Jamaica	72	98	90	58	36.1	-8.2	-35.6
Nicaragua	468	337	292	283	-28.0	-13.4	-3.1
Paraguay	78	137	165	301	75.6	20.4	82.4
Dominican Republic	243	301	452	610	23.9	50.2	35.0
Suriname	12	67	5	10			
Uruguay	113	172	274	466	52.2	59.3	70.1

Source: CEPAL, on the basis of Bank for International Settlements, The maturity distribution of international bank lending, July 1978, July 1979, July 1980 (revised versions), July 1981 and July 1982.

^aExcludes, Bahamas, Barbados and Panama, because they are international financial centres.

^bRefers to the debt having an original term of less than one year with commercial banks supplying data to the Bank for International Settlements. Does not therefore include the short-term debt with suppliers or the debt with other commercial banks.

^cProvisional estimates by CEPAL.

In Venezuela and Peru, on the other hand, global external indebtedness rose very slowly, as it had in Peru during the previous two years and in Venezuela in 1980. Nevertheless, as a result of the sharp drop in the value of Peruvian exports, the debt-export coefficient rose sharply in that country, after having dropped considerably for two years (see table 33).

With regard to the non-oil-exporting countries, external indebtedness grew substantially in Chile, Nicaragua and Uruguay.

In 1981, the growth rate of the gross external debt in Uruguay (45%) was exceeded only by that of Mexico, which was slightly higher (47%). Nevertheless, partly as a result of the relatively moderate growth of Uruguay's external indebtedness during the second half of the 1970s and partly because of the steady and marked increase in its exports, the countries' debt-export coefficient remained one of the lowest in the region. This relatively favourable position was also reflected in the fact that, along with Trinidad and Tobago and Suriname, Uruguay was one of the few Latin American countries which had a negative net external debt in 1981.

Nicaragua, on the other hand, had the highest debt-export ratio of Latin America (3.94). This country's gross external debt rose by one-third in 1981, while its exports declined sharply over the last two years.

Gross external indebtedness also rose by nearly 30% in Chile, more than doubling over the last three years. Moreover, contrary to the case in 1979 and 1980, when exports grew more rapidly than the debt, in 1981 the increase in the debt was accompanied by a considerable decrease in the value of exports. Consequently, after having dropped sharply in 1979 and slightly in 1980, the debt-export coefficient rose substantially in 1981, to 2.3, and was exceeded only by those of Nicaragua, Argentina, Bolivia, Brazil and Mexico. The contrast with the evolution with regard to the two preceding years was even more marked in the case of the net external debt, which rose very slowly between 1975 and 1980, but increased by 53% in 1981 (see tables 34, 35 and 36).

By contrast with the three economies just discussed, Brazil, which up to 1980 had had the highest external debt of the region, increased its external indebtedness at a fairly low rate (19%), which was only slightly higher than the growth rate of its exports. Because of this, the country's debt-export coefficient remained almost stable, after having declined sharply during the two preceding years. Nevertheless, it is still one of the highest in the region.

Argentina, whose external debt rose extraordinarily between 1975 and 1980, from under US\$ 6 billion to over 24.5 billion, saw its gross external indebtedness rise by 25% in 1981; although this rate is much lower than those of the two preceding years, it was still one of the highest recorded in Latin America. Since this increase was much higher than the increase in exports, the debt-export coefficient rose sharply for the fourth year in a row and was exceeded only by that of Nicaragua. Moreover, since during 1981 its official international reserves dropped by almost 44%, its net external debt, which had already doubled in 1980, rose by more than 68% in 1981, thus tripling over the last two years.

VI. PRICES AND WAGES

1. Prices

In 1981, Latin America's inflation rate rose for the fourth year in a row. For the region as a whole, the weighted average variation in consumer prices was somewhat over 57%, thus exceeding slightly the increases recorded in the two preceding years.¹⁷ Moreover, and although to a lesser extent than in 1980 and especially than in 1979, the inflationary process was widespread, inasmuch as of the 23 countries for which data were available, only 6 succeeded in limiting their rates of price increases to less than 10%¹⁸ (see table 38).

¹⁷Because, on the one hand, the weighting factor used to calculate the regional average is the population of each country, and, on the other, the rate at which prices increased was generally much higher in the larger countries, the simple average of regional inflation was equivalent to half (28.8%) the weighted average (56.2%). Nevertheless, like the weighted average, the simple average was also slightly higher in 1981 than in 1980 (27.5%).

¹⁸In 1980, four countries were in this position and in 1979, only one.

Table 38

LATIN AMERICA: EVOLUTION OF CONSUMER PRICES

(December-December variations)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Latin America ^a	12.2	13.5	20.9	36.3	40.0	57.6	61.5	40.4	38.2	53.8	56.2	57.2
Countries with tradition of high inflation ^a	14.4	15.6	24.1	41.5	44.9	69.3	74.8	48.4	45.9	61.9	66.3	68.1
Argentina	21.6	39.1	64.2	43.9	40.1	334.9	347.5	150.4	169.8	139.7	87.6	131.2
Brazil ^b	17.7	18.1	14.0	13.7	33.8	31.2	44.8	43.1	38.1	76.0	95.3	91.2
Colombia	3.5	14.1	14.0	25.0	26.9	17.9	25.9	29.3	17.8	29.8	26.5	26.7
Chile	34.9	22.1	163.4	508.1	375.9	340.7	174.3	63.5	30.3	38.9	31.2	9.5
Mexico	7.8	-0.8	5.6	21.3	20.6	11.3	27.2	20.7	16.2	20.0	29.8	28.7
Peru	5.7	7.7	4.3	13.8	19.2	24.0	44.7	32.4	73.7	66.7	60.8	72.6
Uruguay	19.3	35.6	94.7	77.5	107.2	66.8	39.9	57.3	46.0	83.1	42.8	29.5
Countries with tradition of moderate inflation ^a	2.8	4.6	7.2	15.0	19.8	10.2	7.8	8.3	9.7	22.1	17.0	15.0
Barbados	9.2	10.1	10.4	26.0	36.6	12.3	3.9	9.9	11.3	16.8	16.1	12.3
Bolivia	3.8	3.3	23.6	34.8	39.0	6.0	5.5	10.5	13.5	45.5	23.9	25.1
Costa Rica	4.3	1.9	6.9	15.9	30.6	20.5	4.4	5.3	8.1	13.2	17.8	65.1
Ecuador	8.0	6.8	6.9	20.6	21.2	13.2	13.1	9.8	11.8	9.0	14.5	17.8
El Salvador	1.0	-0.6	5.2	7.9	21.0	15.1	5.2	14.9	14.6	14.8	18.6	11.6
Guatemala	1.0	0.3	1.1	17.5	27.5	0.8	18.9	7.4	9.1	13.7	9.1	8.8
Guyana	2.4	1.4	7.1	15.2	11.6	5.5	9.2	9.0	20.0	19.4	8.5	29.1
Haiti	-0.7	13.3	7.3	20.8	19.5	19.9	-0.1	-1.4	5.5	15.4	15.3	17.8 ^c
Honduras	1.4	1.5	6.8	5.1	13.0	7.8	5.6	7.7	5.4	18.9	15.0	9.6 ^d
Jamaica	7.5	5.2	9.3	9.6	20.6	15.7	8.3	14.1	49.4	19.8	28.6	4.8
Nicaragua						1.9	6.2	10.2	4.3	70.3	24.8	23.2
Panama	2.5	1.0	6.7	9.7	16.7	1.4	4.8	4.8	5.0	10.0	14.4	4.8
Paraguay	2.3	6.3	9.5	14.1	22.0	8.7	3.4	9.4	16.8	39.7	8.9	14.9
Dominican Republic	-1.3	10.6	8.0	17.2	10.5	16.5	7.0	8.5	1.8	26.2	4.2	7.4
Trinidad and Tobago	3.3	5.0	8.0	24.4	18.6	13.4	12.0	11.4	8.8	19.5	16.6	11.0
Venezuela	3.4	3.0	3.5	5.1	11.6	8.0	6.9	8.1	7.0	20.7	21.6	10.8

Source: International Monetary Fund, *International Financial Statistics* and official data supplied by the countries.^aThe totals for Latin America and the partial figures for the two groups of countries shown correspond to the price variations for the countries weighted by their respective population in each year.^bFor the period 1970-1979, the rates correspond to Rio de Janeiro. For 1980 and 1981 they correspond to the whole country.^cVariation between September 1980 and September 1981.^dVariation between November 1980 and November 1981.

Moreover, during 1981 there were greater differences among the inflationary processes in the different countries and, for the second year in a row, there was a widening of the gap between the average rates of price increase of the group of countries which have traditionally had high inflation rates and of the group of economies in which price increases have usually been more moderate. Whereas in the former, the average rate of inflation rose from 62% in 1979 to 68% in 1981, in the latter it declined from 22% to 15% between those two years.

In the first group of countries, which include most of the larger and more diversified economies of the region, inflation was particularly sharp in Brazil and Peru, and especially so in Argentina.

In Argentina, the annual rate of increase in consumer prices, after having dropped almost steadily during 1980, began to rise sharply in April 1981 and by the end of the year was 130%. This change, which is clearly evident in figure 8, was principally due to the sharp rises in the exchange rate which had been introduced in February in an effort to correct both the serious disequilibrium in the balance-of-payments current account and the considerable distortions of the price system.

As a result of this phenomenon, the growth of inflation in 1981 went hand in hand with marked changes in the relative prices of tradeable and non-tradeable goods. Thus, the increases in the prices of imported goods (238%) and of agricultural commodities (213%) were way over the variation in the prices of domestically produced industrial goods (167%) and especially of the services component of the consumer price index (109%).

Inflation followed a different course in Brazil, although it remained higher than 90% for the second year in a row. After having followed an upward trend during the first months of the year, reaching a record 120% in March, the rate of inflation declined systematically after that. This trend was to a large extent brought about by the changes introduced in the price policy and the more restrictive nature of the monetary and fiscal policy in 1981. During the early months of the year, there was a significant increase in prices and rates of public enterprises and in prices of petroleum by-products and controls on the prices of numerous commodities were relaxed. As a result of these measures, the inflation rate accelerated initially, but the improvement in the financial position of the public enterprises thus achieved made it possible to reduce the transfers and subsidies which these enterprises were receiving from the Central Bank, thus attenuating one source of monetary expansion. At the same time, the Government exercised stricter control over public expenditure. As a result of this, as well as of the gradual slowdown of economic activity, the inflation rate was more moderate throughout the year. It was still very high, however, mostly because of the widespread practice of indexing key variables, such as wages, exchange rates and the assets and liabilities of the financial system.

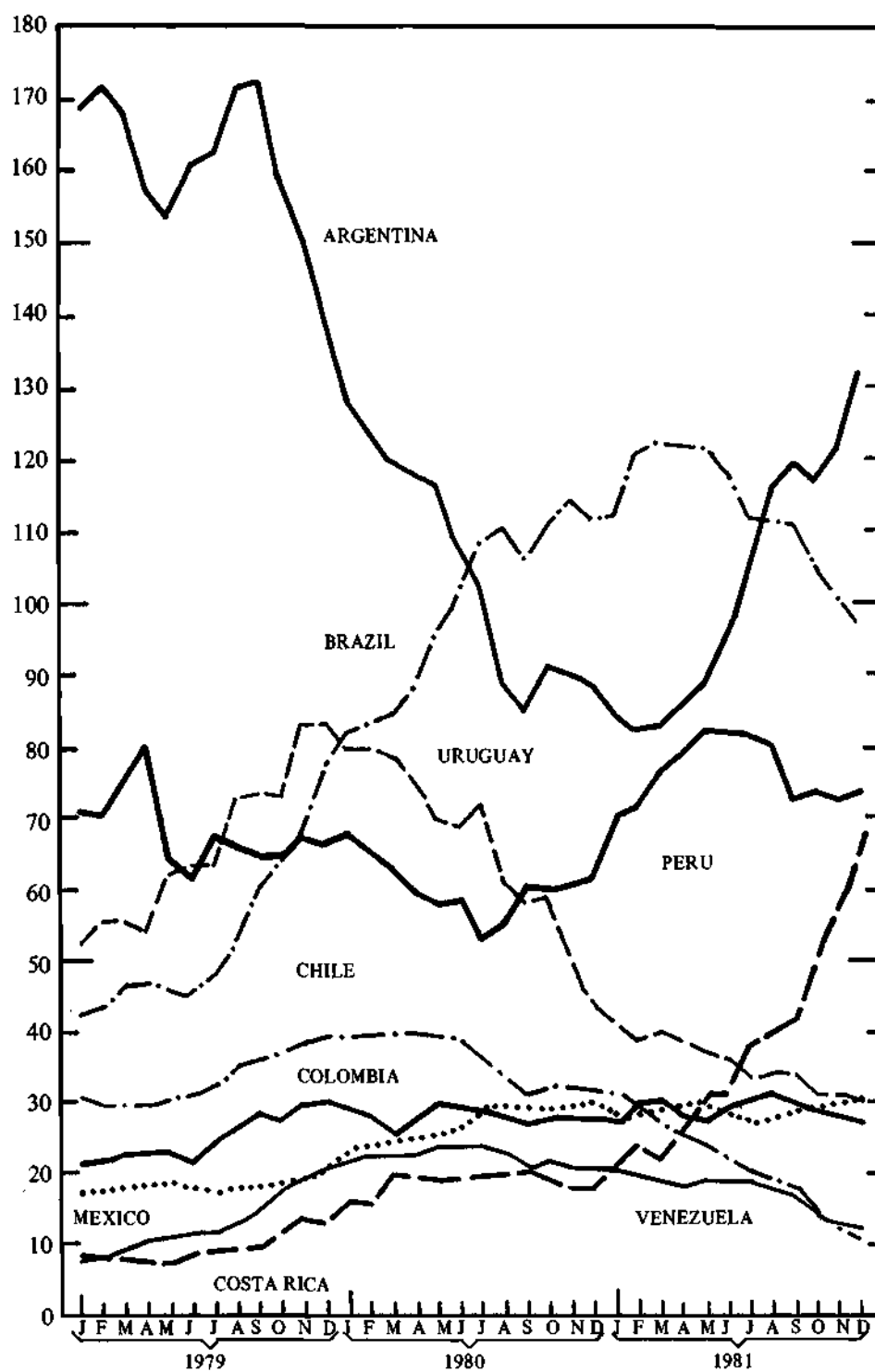
Although it was somewhat lower than in Brazil, the rate of inflation was similar in Peru. As may be seen in figure 8, the average annual rate of increase in consumer prices in Peru accelerated markedly during the early part of the year, mainly as a result of the elimination or reduction of subsidies and controls which had up to then influenced the prices of a series of basic goods and services. Nevertheless, after the initial increases brought about by the liberalization policy, the intensity of the inflationary process declined gradually, although, as in the case of Brazil, it was still very high because of the effect on costs of a mixture of quarterly wage adjustments, the frequently rising exchange rate and higher interest rates.

The strong fluctuations and the extraordinarily high level of inflation in Argentina, Brazil and Peru were in contrast with the evolution of prices in Colombia and Mexico. In these two countries, consumer prices rose by 27% and 29% respectively, i.e., at rates practically equal to those of the preceding year. Moreover, the fluctuations in the rates of inflation throughout the year were minimal in both countries. Nevertheless, in 1981 Mexico's inflation was the second highest of the last 30 years and did not fully reflect the accentuation of certain basic macroeconomic disequilibria such as the finances of the central government, whose deficit tripled because of an almost 100% increase in total expenditures. The inflationary pressures implicit in the unusual growth of both public outlay and total demand were partly offset by the also exceptional increase in the trade deficit, which more than doubled, and by the marked overvaluation of the peso.

The rate of inflation fell markedly, however, in Uruguay and Chile in 1981. In Uruguay, the rate of increase in consumer prices, which had already dropped from 83% to 43% between 1979 and 1980, continued to drop systematically in 1981, to less than 30% by the end of the year, thus reaching its lowest level since 1971. The slowdown in the growth rate of the wholesale price index, in which tradeable goods have the highest weight, was even more marked, inasmuch as it dropped from 77% in 1979 to 29% in 1980 and to only 15% in 1981.

The trend and the factors influencing the inflationary process were very similar in Chile, where the rate of increase of consumer prices, after having dropped from 39% in 1979 to 31% in 1980, fell to 9.5% in 1981, while wholesale prices underwent an absolute reduction of 4%, after having risen by 58% in 1979 and 28% in 1980. As in the case of Uruguay, but in a more definite way, the principal causes of this abrupt and steady deceleration of the inflationary process with regard to prices were the exchange policy and the liberalization of imports. During 1981, the exchange parity was maintained at the level of 39 pesos per dollar, a rate which had been fixed in June 1979; thus, the real effective exchange rate continued to decline so that it was approximately

Figure 8
 TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE
 INDEX IN SELECTED LATIN AMERICAN COUNTRIES



10% lower than in 1980. Under such circumstances, and because of the total openness of the commercial account, there was a new and substantial increase in imports, which meant that the rate of increase of domestic prices converged with that of external inflation. This trend was reinforced, moreover, by the substantial drop in the unit value of exports and by the abrupt reduction of domestic demand which occurred during the second half of the year, as a result of which both the unemployment rate and the level of inventory rose sharply.

In the countries that have traditionally had a moderate inflation, where the rate of price increase tends to follow the trend of international inflation, the intensity of the inflationary process declined slightly in 1981 for the second year in a row. Even so, the weighted average increase of consumer prices (15%) was still high in historic terms as it was lower only than the figures recorded during the biennia 1972-1974 and 1979-1980—the two periods of increases in the international price of oil and of acceleration of inflation in the industrialized countries (see table 38).

The attenuation of the inflation rate was accompanied, however, by greater disparities in the rates of price increases in the different economies. These ranged from a minimum of somewhat under 5% in Jamaica and Panama to a maximum of 65% in Costa Rica.

In Costa Rica, where the inflationary process had been accelerating slowly but steadily over the preceding four years, there was a virtual inflationary explosion in 1981. As a result mainly of the abrupt devaluation of the colón in late 1980,¹⁹ the rate of increase of consumer prices accelerated sharply from under 18% in December 1980 to 65% in late 1981, while wholesale prices increased even more pronouncedly, from 19% in 1980 to 117% in 1981.

Inflation also increased heavily, although to a much lesser extent than in Costa Rica, in Guyana, where consumer prices, after having risen only 8.5% in 1980, rose by more than 29% in 1981. As in the case of Costa Rica, this acceleration of the inflationary process was largely due to the 18% increase in the exchange rate decreed in early June.

The rate of increase of prices dropped noticeably in 1981 in Venezuela and, particularly, in Jamaica. In Venezuela, inflation decreased to a little under 11%, after two years during which it had reached rates of somewhat over 20%. This attenuation of the inflationary process was basically a result of restrictive monetary and fiscal policies adopted by the economic authorities. In 1981, these policies were reflected in a drastic reduction of the deficit of the central government and a very moderate increase in the quantity of money. However, the reduction of inflation was also influenced by direct price controls introduced in April and by the stagnation of real wages.

The even more marked fall in the inflation rate in Jamaica, from 27% in 1980 to less than 5% in 1981, was also due to a variety of causes. In this respect, special note should be taken of the rigid policies adopted in the fiscal and monetary field, which contributed to a substantial reduction of inflationary pressures from the demand side, and the strict controls adopted as regards wages and prices, which helped to mitigate rises on the cost side. These rises were also weakened by the marked reduction in the rate of increase of prices of imported goods, which rose by less than 5% in 1981, after having increased by around 30% in 1980, and by the greater supply of basic consumer goods.

2. Wages and salaries

In 1981 the evolution of average real wages and salaries was very diverse in the Latin American countries for which statistical information is available. As may be seen in table 39 and figure 9, while real wages increased sharply in Brazil, Chile, Guatemala, Paraguay and Uruguay, they decreased considerably in Argentina, Bolivia and Costa Rica, dropped slightly in Peru and remained stable in Colombia.²⁰

¹⁹During the last days of 1980, the exchange rate rose from 8.1 to almost 40 colones per dollar.

²⁰The statistics on wages and salaries were gathered from the payrolls of sample establishments or from social security statistics. The coverage of information may refer to various sectors of production or to all activities. Table 39 includes the indicators of greatest coverage for urban activities; when this information is not available, the average wages and salaries from manufacturing have been incorporated.

In general, wages and salaries tended to decline in those countries where per capita income decreased, the inflationary process accelerated and the employment situation worsened. They rose, however, in the economies where the rate of increase in prices fell and unemployment dropped. But the evolution of real wages and salaries was also strongly influenced by the legal mechanisms established to determine the form, periodicity and amount by which nominal wages and salaries were readjusted in the various countries.

Of the three countries where average real wages and salaries suffered a considerable setback, the most pronounced was in Bolivia. In that country, average real wage of workers in non-agricultural activities dropped by 24%. As it had already fallen slightly in 1979 and by more than 8% in 1980, its 1981 level was more than 30% lower than that of three years before. Although during this period the per capita product also continued to decrease, the main cause of the accentuated drop in the 1981 real wage was the wage policy which kept nominal wages frozen during the entire year despite the fact that during the year consumer prices rose by an average of 32%.

Table 39

**LATIN AMERICA: EVOLUTION OF THE REAL VALUE
OF AVERAGE WAGES AND SALARIES**

(1976 = 100)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Argentina ^a	133.8	138.3	131.5	139.7	157.7	148.6	100.0	98.5	96.7	111.1	124.2	111.0
Bolivia ^b	101.1	112.3	109.9	111.6	89.5	83.3	100.0	102.6	103.6	102.2	93.1	70.9
Brazil ^c	75.5	78.1	85.7	86.4	88.3	96.8	100.0	104.3	109.4	111.2	111.1	123.6
Colombia ^d				105.4	99.8	97.6	100.0	94.2	104.9	111.8	112.8	113.8
Costa Rica ^e						88.1	100.0	109.4	119.0	124.1	121.2	115.6
Chile ^f	158.1	189.3	191.5	113.2	102.9	99.5	100.0	112.9	120.1	130.1	141.8	154.7
Guatemala ^g						105.5	100.0	85.1	89.2	90.8	91.6	114.1
Paraguay ^h	109.4	108.2	102.9	99.4	95.0	94.9	100.0	95.4	98.1	92.4	92.9	98.8
Peru ⁱ				110.3	109.1	98.2	100.0	84.5	76.4	73.9	80.3	78.8
Uruguay ^j	138.6	145.8	121.0	118.9	116.5	106.2	100.0	88.1	84.9	79.0	77.7	83.5
Percentage variation												
Argentina ^a		3.4	-4.9	6.2	12.9	-5.9	-32.7	-1.5	-1.8	14.9	11.8	-10.6
Bolivia ^b		4.2	-2.1	6.8	-19.8	-6.9	20.1	2.6	1.0	-1.4	-8.3	-24.3
Brazil ^c		4.2	8.9	0.8	2.2	9.6	3.3	4.3	4.9	1.6	5.3	5.6
Colombia ^d					-5.3	-2.2	2.4	-5.8	11.4	6.5	0.9	0.9
Costa Rica ^e							12.7	9.4	8.8	4.8	-2.8	-4.6
Chile ^f		19.3	-9.3	-34.0	-9.1	-3.3	0.5	12.9	6.4	8.3	9.0	9.1
Guatemala ^g							-5.2	-14.9	4.8	1.8	0.9	24.6
Paraguay ^h		-1.1	-4.9	-3.4	-4.4	-0.1	5.3	-4.6	3.5	-6.4	0.6	6.3
Peru ⁱ					-1.1	-10.0	1.8	-15.5	-9.6	-3.3	8.6	-1.9
Uruguay ^j		5.2	-17.0	-1.7	-0.9	-8.6	-5.8	-11.9	-3.6	-8.1	-0.4	7.5

Source: CEPAL, on the basis of official data.

^aWages of labourers in the manufacturing industry in the metropolitan area.

^bWages and salaries of personnel engaged in non-agricultural activities at national level.

^cAverage wages in industry in general, deflated by the consumer price index for Rio de Janeiro.

^dWages of labourers in the manufacturing industry at national level.

^eWages and salaries declared by people enrolled in the social security system.

^fWages and salaries of labourers and employees in the non-agricultural sectors, with the exception of large-scale copper mining and the cellulose and paper industries.

^gWages and salaries declared by people enrolled in the social security system.

^hWages of labourers in general for Asunción.

ⁱWages of labourers in the private sector in the metropolitan area of Lima.

^jWages and salaries in the public and private sectors in Montevideo and the interior.

The drop in real wages was also considerable (-11%) in Argentina, where they had increased nearly 27% in the two previous years as a result of the recovery of economic activity and a gradual decline in the inflation rate. However, since that increase occurred after four years in which the buying power of wages was continually being reduced, in 1981 the real level of the latter was equal to only 70% of that of 1974. The decrease in real wages which took place in 1981 was due, on the one hand, to the sharp contraction of economic activity and employment and, on the other, to the acceleration of the inflationary process. As mentioned above, after the devaluation of the peso at the beginning of the year, the rate of increase in consumer prices persistently rose, reaching more than 130% in December. The economic authorities, however, did not establish obligatory standards for the adjustment of wages and salaries, except for minimum wages and basic contract wages. For this reason, and because at the same time the job situation was deteriorating, the nominal increases in average wages and salaries were much lower than those of prices.

According to the information available for the first half of 1981, real wages and salaries fell nearly 5% in Costa Rica. It is probably true, however, that this drop was even greater during the rest of the year due to the marked acceleration of the inflationary process during this period.²¹ As in the case of Argentina, the decrease in real wages and salaries was influenced by the drop of more than 14% in the national per capita income in 1981, the sharp increase in unemployment—which rose from an average of 5.3% in 1980 to an average of 8.3% in 1981—and, especially, the enormous increase in inflation, which rose from less than 18% in 1980 to 65% in 1981. The worsening of the inflationary process not only helped directly erode the buying power of wages and salaries in the private sector, but also led the economic authorities to apply a very severe policy on readjusting wages and salaries in the public sector in order to reduce the considerable fiscal deficit. As a result of this policy, real wages and salaries declined in the central government considerably more than in private activity, and they fell even below their 1973 level.

The buying power of wages also decreased, although more slightly (-2%), in Peru, another country where in 1981 the inflationary process accelerated. The rate of growth in consumer prices rose sharply in the first months of the year due to the lifting of a series of controls which previously had limited the rise in prices of certain basic articles. Although the inflation rate later slowed down, the increase in consumer prices in the year was 73% and thus largely exceeded the 61% recorded in 1980. The negative effects which this phenomenon would normally have produced on the buying power of wages and salaries, however, were partly neutralized by two important modifications in the wage policy. The first was the granting of quarterly increases equivalent to the anticipated rise in the consumer price index to workers in the public sector and those in the private sector who were not subject to collective bargaining; the second was the obligatory inclusion of readjustment clauses in the collective factors. Due to the application of these provisions, and also due to the slight decline in unemployment in Lima and the small increase in per capita income for the second consecutive year, the decrease in real wages and salaries was relatively insignificant. Since the latter had fallen almost continually from 1973 to 1979, their 1981 level was almost 30% lower than in 1973.

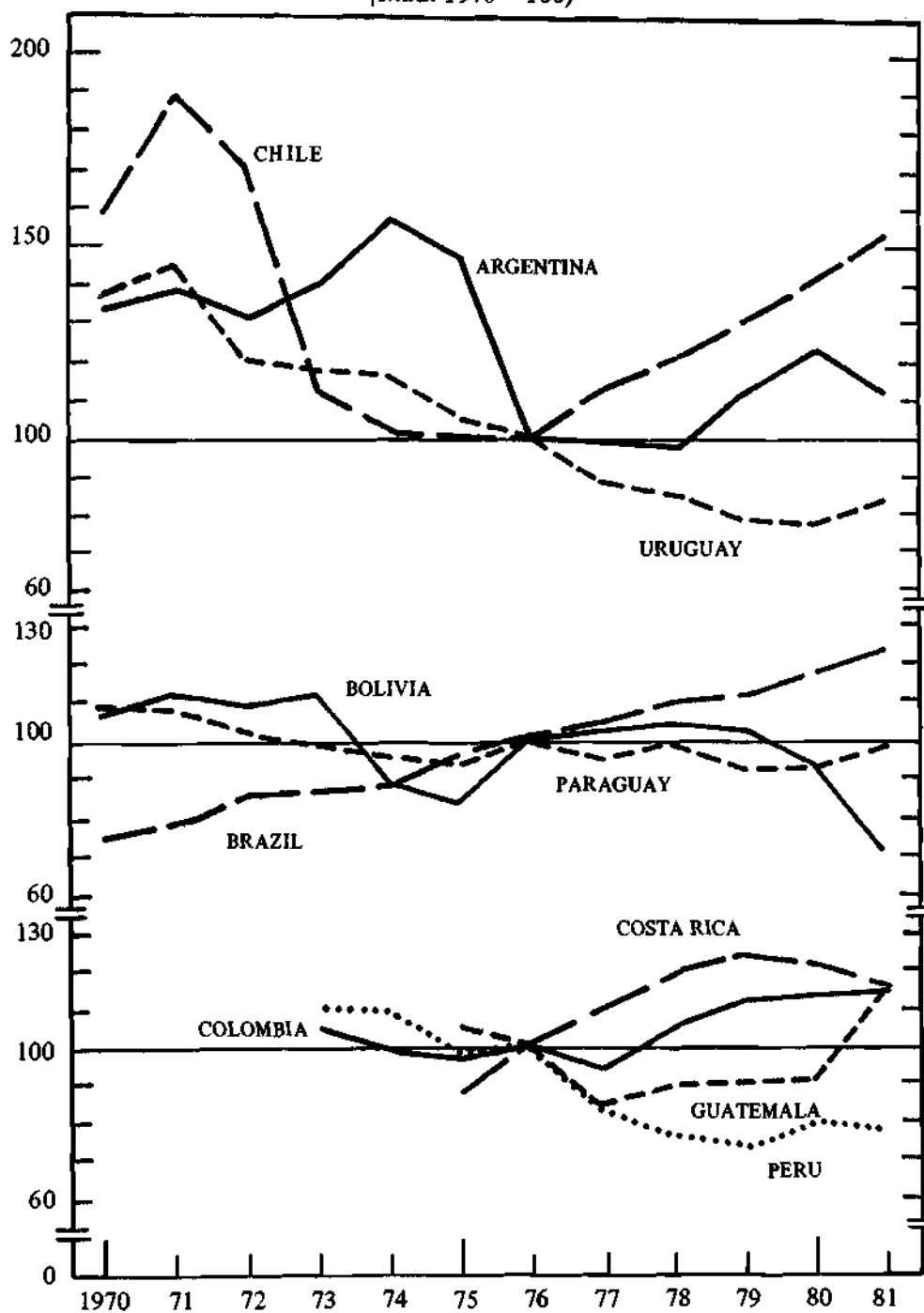
In Colombia, on the other hand, the real wage of industrial workers increased almost 1%, as had occurred the previous year. This small increase, much lower than those of 1978 and 1979, basically reflected the economy's progressive loss of dynamism in the last two years, especially in the manufacturing sector. However, the virtual stability of the industrial wage as well as the minor changes in real minimum wages and agricultural day wages were also partly an effect of the fairly widespread indexing of wages and salaries and the noteworthy stability of the inflation rate, which during the last two years fluctuated very slightly around 27%.

The impact of the trend in prices on the evolution of real wages and salaries was also reflected in the five countries in which the latter increased considerably in 1981, since in all of them, with the sole exception of Paraguay, inflationary processes decelerated.²²

²¹While in the first six months consumer prices rose by 22%, in the second six months they rose by 35%.

²²Although in Paraguay the increase in consumer prices from December to December was greater in 1981 than in 1980, the average increase (13%) was much lower in 1981 than in 1980 (22.4%).

Figure 9
LATIN AMERICA: EVOLUTION OF REAL AVERAGE SALARIES AND WAGES
(Index 1976 = 100)



Source: Table 39.

The incidence of inflation and the legal norms referring to wage readjustments were especially noteworthy in Chile. On the one hand, the rate of growth of consumer prices declined continually and markedly from 39% at the end of 1979 to 9.5% in December 1981, and, on the other, during this last year the system of nominal wage readjustments was maintained, by virtue of which the latter were to increase by a minimal percentage equivalent to that of the increase in the consumer price index in the previous period. Under these circumstances, real wages increased for the second consecutive year by 9% and thus continued to recover from their drop during the period 1972-1974. Due, however, to the enormous size (-47%) of the setback which these wages suffered during that period, their increase during the past five years only enabled their 1981 level to approximate their 1970 level (see table 39).

The sharp drop in inflation, from 43% in 1980 to slightly less than 30% in 1981, and the continuation until the first half of that year of the declining trend in unemployment, also contributed to the increase of 7.5% in average real wages and salaries in Uruguay. However, in contrast to what occurred in Chile, this increase was the first in the past 10 years, a period in which the buying power of wages and salaries was reduced by almost half.²³

Real wages and salaries rose by nearly 6% in 1981 in Brazil, despite the fact that during that year the level of economic activity decreased slightly and the rate of unemployment in the principal urban centres increased. The negative effect of these changes was more than offset, however, by the slight decrease in the inflation rate and, especially, by the modifications introduced in the wage policy. This policy retained the system of automatic half-year readjustments established in 1979, to which was added a standard for redistributive purposes consisting of the following: while wages and salaries lower than 3 times the minimum wage were adjusted by 110% of the increase in the national consumer price index, and those between 3 and 10 times the minimum wage were raised by 100% of this increase, wages and salaries which exceeded 10 times the minimum wage were adjusted in decreasing proportions to the increase in consumer prices. During 1981, differentiated increases were also established in the current minimum wages in the various regions with a view towards gradually reducing the differences between them. The 1981 increase, marked the end of eleven consecutive years during which the real wage paid in manufacturing continually rose, a fact which, as can be seen in table 39, is a clear exception in the context of the regional experience.

In 1981 real wages of workers in Asunción increased by around 6%. This increase, attributable partly to the persistent and high rate of economic growth and the continual drop in the unemployment rate and partly to the readjustment of 15% which was established for the minimum wage beginning on 1 May, was the second significant one in the past eleven years. According to official information, and despite the extraordinary and sustained expansion of the Paraguayan economy during this period, the real wage for workers appears to have declined by approximately 10% between 1969 and 1981, a fact which is certainly surprising.²⁴

Finally, in 1981 there was apparently an extraordinary rise of nearly 25% in the real wages of social security members in Guatemala. It is probable that this increase, which is not easy to explain in view of the meagre growth rate of 1% that year in the Guatemalan economy, was basically a delayed effect of the considerable readjustments introduced in 1980 in minimum wages. In the first half of that year, the minimum legal agricultural wage, which had remained unchanged since 1973, rose from 1.12 quetzales daily to 3.20 quetzales. This increase benefited, in principle, approximately 600 000 farm workers. Then, in May, the minimum wage applicable in the main industrial branches rose from 2 to 4 quetzales daily, and in June the minimum wage of workers in trade, transport and a wide range of services was readjusted by 46%. These increases were applied gradually, but apparently by the end of 1980 they were completed in the majority of enterprises. As a result, although in 1981 new readjustments to minimum wages were not conceded, the latter were on average much higher than those paid the previous year.

²³It is probable, however, that the series utilized overestimates the drop in wages, especially in more recent years, since it considers only legal readjustments. An indication in this direction is provided by the index of real income per worker employed in the establishments included in the Quarterly Industrial Survey of the Central Bank. According to this survey, the annual average variations during the period 1978-1981 were, respectively, -1.5%, -3.1%, 3.1% and 7.8%, figures which appear to be more compatible with the evolution of the principal macroeconomic variables during this period.

²⁴For a tentative explanation of this anomaly, see the section corresponding to the chapter on Paraguay in the second part of this Survey.

PART TWO
THE ECONOMIC EVOLUTION OF THE
INDIVIDUAL COUNTRIES

ANTIGUA AND BARBUDA

1. Recent economic trends: Introduction and summary

Antigua attained political independence on 1 November 1981. The new nation consists of three islands: Antigua, the seat of the central government, with an area of 280 km², Barbuda (160 km²) and Redonda, an uninhabited rocky islet of 2.5 km². The population in mid-1981 was estimated at 75 235, with 74 000 residing on Antigua and 1 235 on Barbuda. The crude birth rate is 16.0 and the death rate 5.1 per 1 000; net population increase is 1.2%.

The GDP for 1980 was EC\$ 143 million,¹ with a per capita income of EC\$ 1 900 at 1975 prices. The annual average growth rate of the GDP during the four years 1976 to 1980 was 6.8% (see table 1), but the high growth rate of 8.3% recorded in 1979 declined to 3.6% in 1980. Allowing for inflation, real growth during 1981 is likely to have been marginal.

Changes in the 1980 GDP for various sectors of the economy show that manufacturing increased by 1.9%, mining and quarrying by 8.3%, and transport and communications by 1.2%. However, construction registered no growth and electricity and water even declined by 9%. Agriculture, fisheries and forestry also declined by 3.3%. The government sector, which has the largest share in GDP, showed the highest rate of growth at 19.5% and hotels and restaurants, the third largest contributor to GDP, recorded a 6.7% increase (see table 2).

A full analysis of the performance of the various sectors of the economy during 1981 cannot be made at this time due to the inadequate data base. However, significant changes in the relative performance of the various sectors are not anticipated. Available information indicates that costs and prices increased more slowly in 1981 than in 1980, possibly as a result of more stable oil prices. The production sector is expected to show only marginal changes, while the service sectors, in particular government services, are expected to maintain average growth in terms of current prices.

2. Trends in economic activity

(a) *Growth of the main sectors*

(i) *Agriculture.* Agricultural GDP (agriculture, fishery, forestry and livestock) at 1975 prices was EC\$ 11 million in 1980, representing zero growth over the 1979 figure. The contribution of the sector to the GDP was 8%. Increased agricultural earnings were expected during 1981 due to expansion of local food production and increases in commodity prices. Vegetables, root crops and livestock are the mainstay of the agricultural sector in terms of stability, employment and contribution to the economy.

The reactivated sugar industry now makes significant demands on the available land and other resources, in particular capital. However, its contribution to the economy is still for the future. Fishing is also important but provides relatively little direct employment.

Agricultural production and levels of productivity are constrained by low, unreliable rainfall and factors common to many poorly financed, developing insular economies, viz., insufficient machinery, inadequate storage, poorly developed markets, inadequate technical services and the inability of large numbers of farmers to qualify for available lines of credit. Most farmers are responsible for all steps in the system, from production through marketing, with no storage or

¹The exchange rate of the East Caribbean dollar is EC\$ 2.70 = US\$ 1.00.

Table 1
ANTIGUA AND BARBUDA: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980 ^a
A. Basic economic indicators				
Gross domestic product at 1975 prices (millions of East Caribbean dollars)	117.8	127.1	137.7	142.7
Growth rates				
B. Short-run economic indicators				
Gross domestic product	7.3	7.9	8.3	3.6
Current value of exports of goods	...	...	-19.5	175.1
Current value of imports of goods	...	...	53.6	56.0
Consumer price index				
December-December	11.1	6.5	21.1	16.2
Variation between annual averages	13.8	6.1	16.3	19.0
Rate of unemployment	...	20.4	20.2	20.7
Total expenditure of government	24.5	-3.9	...	...

Source: CEPAL, on the basis of official data.

Table 2
ANTIGUA AND BARBUDA: GROSS DOMESTIC PRODUCT BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of East Caribbean dollars at 1975 prices			Percentage breakdown		Growth rates		
	1978	1979	1980	1978	1980	1978	1979	1980
Total gross domestic product	127.1	137.7	142.7	100.0	100.0	7.9	8.3	3.6
Goods	29.3	32.4	32.7	25.1	22.9	9.3	10.6	0.9
Agriculture, fisheries and forestry	4.1	3.0	2.9	3.1	2.0	7.9	-26.8	-3.3
Livestock	7.8	8.4	8.5	4.9	6.0	9.9	7.7	1.2
Mining and quarrying	1.1	1.2	1.3	0.6	0.9	22.2	9.1	8.3
Manufacturing	7.8	10.4	10.6	9.1	7.4	27.9	33.3	1.9
Construction	8.5	9.4	9.4	7.5	6.6	-4.5	10.6	-
Basic services	24.2	27.7	27.8	17.8	19.5	16.3	14.5	0.4
Electricity and water	1.9	2.2	2.0	1.2	1.4	26.7	15.8	-9.1
Transport and communications	22.3	25.5	25.8	16.6	18.1	15.5	14.3	1.2
Other services	73.6	77.6	82.2	57.1	57.6	4.8	5.4	5.9
Wholesale and retail trade	15.5	17.2	17.4	12.7	12.2	10.7	11.0	1.2
Hotels and restaurants	14.1	16.4	17.5	9.3	12.3	12.8	16.3	6.7
Government services	18.5	18.5	22.1	12.7	15.5	1.2	-	19.5
Others	25.5	25.5	25.2	22.3	17.6	4.9	-	-1.2

Source: Economic Affairs Division, Organization of East Caribbean States.

holding facilities. Such conditions result in brief gluts and prolonged periods of scarcity during which the island is dependent on imports. Efforts have been made to reduce these problems by taking measures to improve the purchasing and storage capacity of the national Central Marketing Corporation and to expand credit facilities through the National Development Bank.

Small farmers dominate the agricultural sector, accounting for approximately 75% of locally produced vegetable and food crops, virtually all fruits (excepting pineapples), 75% of animal products (including all milk), and 50% of cotton and 25% of sugar cane acreage. Government agencies and corporations account for 75% of the sugar cane acreage, 50% of the cotton, the residue of vegetables, root crops and fruits, and also some cattle.

The total acreage used for vegetable and food crop production increased from approximately 530 hectares in 1980 to 610 hectares in 1981, with the volume of output increasing from approximately 770 to 1 000 tons.

The sugar industry was restarted during 1981. The ultimate production target is 5 000 tons of raw sugar and 1 million litres of molasses for local consumption from 12 000 hectares of sugar cane. During 1981 raw sugar output amounted to 45 tons, with 250 hectares of cane being cultivated by the State-owned Sugar Industry Corporation and 80 hectares by small farmers.

Cotton production declined further to 6 000 kg from 135 hectares during the 1980/1981 season. Small farmers accounted for 2 870 kg from 50 hectares and Government agencies 3 130 kg from 85 hectares. Although the current price is US\$ 5.50 FOB per kg of clean lint, the outlook is for continued low levels of production. The major constraints are insufficient machinery to effect timely cultivation, poor pest control, and severe problems with harvesting, which is done by hand.

Fruit production increased marginally during 1981, the total output being estimated at 198 000 kg, of which pineapples contributed 132 000 kg, mangoes 35 500 kg, avocados 12 700 kg and citrus fruits 15 800 kg; in addition, production of bananas was estimated at 127 000 kg. Except for small exports of pineapples and mangoes, the entire production was sold on the local market (see table 3).

Table 3

ANTIGUA AND BARBUDA: OUTPUT OF MAIN PRODUCTS

	1976	1977	1978	1979	1980 ^a	1981
Raw cotton ^b	523	449	528	36	...	32
Sweet potatoes ^b	558	158	374	615	131	243 ^c
Yams ^b	134	102	176	240	69	44 ^c
Tomatoes ^b	241	87	309	300	58	78 ^c
Onions ^b	160	18	35	279	12	15 ^c
Carrots ^b	300	47	195	323	54	86 ^c
Pineapples ^b	88	57	67	61	1	2 ^c
Bananas ^b	98	24	512	336	300	179 ^c
Ginger ^b	3	7	20	6	14	20 ^c
Lobsters ^b	300	385	265	223	141	112 ^c
Animal feed ^b	...	164	298	93	128	82
Rum ^c	178	91	203	181	137	162
Cotton lint ^b	179	164	174	12	35	13
Cottonseed oil ^b	...	3	2	...	18	14
Clothing (outerwear and underwear) ^d	326	444	365 ^e	188 ^f	318 ^g	...

Source: Ministry of Agriculture, Antigua and Barbuda.

^aData for small farmers only.

^bThousands of pounds.

^cThousands of gallons.

^dThousands.

^eJanuary-November.

^f3 of 5 factories.

^g1 of 5 factories.

The livestock subsector is the main contributor to the agricultural share of the GDP. The animal population is estimated at 10 800 cattle, 15 200 sheep, 16 500 goats and 2 000 pigs. Animals are kept mainly for meat production: there are no specialized dairy units and milk is virtually a by-product of the beef industry.

Efforts are being made to promote agro-industrial activity linked with local production of fruits and vegetables. The Ministry of Agriculture operates a small food processing unit which bottles seasonally available material, and a pilot food processing plant is to be commissioned during 1982. In addition to the production of raw sugar, there is a State-owned edible oil facility which processes locally produced cotton seed and copra imported from the CARICOM region. A privately owned milk processing facility reconstitutes imported dried milk and handles small quantities of locally produced fresh milk.

The fishing industry is based on small boats which exploit inshore areas. Although the number of boats in operation remained at 250 during 1980 and 1981, and crews increased from 500 to 550, the fish landed declined from 1 107 tons to 851 tons and lobster from 64 to 38 tons, while the value of the fish landed decreased from an estimated EC\$ 4.9 million in 1980 to EC\$ 3.8 million in 1981 and the value of the lobster caught went down from EC\$ 846 000 to EC\$ 509 000. It is estimated that 50% of the total catch was exported during 1980 but only 355 tons of fish and 10 tons of lobster were exported during 1981 (see table 4).

Although fish and lobster are exported, the island suffers chronic shortages of these products. The Government and the Caribbean Food Corporation have therefore financed a fishing venture as a part of the Caribbean Food Plan to exploit fish resources beyond the 50 fathom limit. Operations are to commence during 1982, and when full output capacity is achieved, the island should approach self-sufficiency in fresh fish.

Most small farmers make only limited use of credit. This may be attributed to poorly developed marketing systems, low levels of technology and inadequate support services, which result in low yields and a situation of high risk. The Antigua and Barbuda Development Bank is now the main source of credit for small farmers. During 1981 it approved some 66 loans for crop production, 10 for livestock improvement and 16 for fishing; total disbursements amounted to EC\$ 550 000.

(ii) *Manufacturing.* Although efforts have been made to promote industrial development by offering incentives such as rental of factory shells at concessionary rates, tax rebates and opportunities to repatriate profits, this sector remains small, only contributing 7% of the GDP and

Table 4
ANTIGUA AND BARBUDA: FISH LANDINGS

	1980	1981 ^a	Growth rates
Number of boats	250	250	-
Number of crew	500	550	10.0
Fish landed ^b	1 107	851	-27.3
Lobster landed ^b	64	38	-40.6
Fish exported ^b	500 ^c	355	-29.0
Lobster exported ^b	30 ^c	10	-66.7
Value of fish ^d	4.9	3.8	-22.4
Value of lobster ^e	846	509	-40.0

Source: Ministry of Agriculture, Antigua and Barbuda.

^a Preliminary figures.

^b Tons.

^c Estimated.

^d Millions of East Caribbean dollars.

^e Thousands of East Caribbean dollars.

Table 5

**ANTIGUA AND BARBUDA: INSTALLED CAPACITY, PRODUCTION
AND CONSUMPTION OF ELECTRICITY**

	Installed capacity (thousands of kW)			Production (millions of kWh)			Consumption (millions of kWh)			
	Total	Industrial	Public	Total	Industrial	Public	Total	Residential	Commercial	Industrial
1976	17.0	4.0	13.0	47.4	7 ^a	40.4	...	...	...	...
1977	18.0	5.0	13.0	51.6	7 ^a	44.6	34.3	14.0	12.0	5.0
1978	16.5	5.0	11.5	53.0	7 ^a	46.0	35.5	15.0	12.0	5.0
1979	20.0	5.0	15.0	52.0	7 ^a	45.0	34.6	15.0	10.0	7.0
1980	20.3	5.3	15.0	53.7	1	52.7	37.7	17.0	12.0	5.0
1981	20.3	5.3	15.0	57.2	1	56.2	42.8	19.0	14.0	6.0

Source: Electricity Department, Public Utilities Authority, Antigua and Barbuda.

^aEstimated.

providing some 6% of available jobs. It is also relatively weak, as it has not shown significant growth or stability in output and development opportunities.

Enclave and assembly-type operations are dominant, with almost total dependence on imported materials and on markets in North America and in the CARICOM area. The product range includes rum, garments, beds, stoves, refrigerators, household and office furniture, doors and windows. Reactivation of the oil refinery and production of raw sugar will strengthen this sector.

The enclave industries registered decreases in both output and employment during 1981, when the number of employees fell from 1 065 at mid-year to 825 at the end of the year. This decline in activities may have been a direct reaction to market conditions in North America.

(iii) *Basic services.* The Antigua Public Utilities Authority is the sole supplier of electricity, water and internal telephone services to the public. Generation of electricity is based exclusively on imported diesel oil. The installed capacity of the public utilities is 15 000 kW and of the industrial sector 5 300 kW. Electrical output by the public utilities increased from 53 million kWh in 1980 to 56 million kWh in 1981, with industrial production constant at 1 million kWh. It is estimated that the public utilities consumed 102 thousand barrels of oil equivalent (kboe) in 1980 and some 114 kboe in 1981. Electrical energy sold to various categories of users during 1981, in millions of kWh, was: households 19, commercial enterprises 14, industrial operations 6, municipal lighting 2, and others 2 (see table 5).

Municipal water supplies are derived from surface catchments and subsurface sources, the latter being located mainly in the southern part of the island. The demand/supply ratio for water is at a critical level and an additional surface reservoir is to be constructed. During 1981, the north shore pipeline was installed to improve supplies to that part of the island, where the tourist facilities are concentrated. The telephone service is being upgraded and expanded but has yet to satisfy the basic needs of population centres.

(iv) *Tourism.* The tourist sector continued to dominate the economy in 1980, when it contributed 12% of the GDP, at 1975 prices. The value of earnings during 1981 is not yet available.

The number of stop-over visitors (by air only) declined by 13%, while cruise ship visitors increased by 6%, thus giving a net decrease of 3% in total visitors from 1980 levels. It is estimated that visitor arrivals on yachts increased marginally from 11 830 in 1980 to approximately 12 000 during 1981 (see table 6).

The composition of the tourist market, in particular the air arrivals, has shown a decline in numbers from the United States and Canada and an increase from the United Kingdom and other destinations. Visitors from Europe registered a 40% increase during 1980 but declined during 1981 to the 1979 levels.

Tourist arrivals show marked seasonal fluctuations. The peak season for arrivals by air is January through April and for cruise ship visitors November through April. Concerted efforts are being made by the Government and local tourism interests, in co-operation with regional tourism associations, to promote the island as a year-round destination and to secure new markets.

(v) *Employment.* There are no recent data relating to national employment. The Ministry of Labour estimates the total labour force at 29 229 with 23 159 persons employed and an unemployment rate of 21% (see table 7).

The public sector is the largest direct employer, with an estimated 2 658 employees in the central government civil service, 920 in statutory bodies, plus fluctuating numbers of weekly and daily paid workers. Although absolute figures are not available, it is indicated that the tourist and service sectors are of greatest importance in terms of direct and indirect employment. Seasonal employment is a characteristic of agriculture, the hotel industry and the transportation service.

Positive indicators as regards employment during 1981 include the reactivation of the sugar industry, rehabilitation of the oil refinery, and increased construction activity, particularly by the public sector and also in the service sector since independence. However, such gains were offset in part by declines in cotton production and in employment by enclave industries.

3. The external sector

(a) *Merchandise trade*

Balance of payments statements are not available beyond 1979, when the visible trade deficit was EC\$ 137 million, the current account had a deficit of EC\$ 22 million and the overall balance showed a deficit of EC\$ 6 million.

The visible trade deficit for the first five months of 1981 was EC\$ 94 million, with imports valued at EC\$ 127 million and exports at EC\$ 33 million. Petroleum, foodstuffs, construction materials and machinery and equipment for the transport sector continue to dominate the import sector, while clothing, rum, fish and lobster are the main exports (see tables 8 and 9).

4. Prices and wages

Inflation was approximately 12% in 1981, compared with 19% the year before (see table 10). This reduction was due to a combination of circumstances, including the stabilization of world petroleum prices, a slowdown in the inflation rate of countries from which most imports are purchased, and the relative strength of the US dollar, to which the East Caribbean dollar is linked.

Table 6

ANTIGUA AND BARBUDA: SELECTED TOURIST INDICATORS

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Total visitors ^b	128.8	169.7	205.0	198.1	23.8	31.8	20.7	-3.4
Stopover visitors	76.9	99.5	97.9	84.7 ^c	12.6	29.4	-1.6	-13.5
Cruise-ship visitors	51.9	70.3	107.1	113.4	45.1	35.3	52.4	5.8
Number of cruise-ship calls	96	120	164	177	62.7	25.0	36.7	7.9
Number of yacht calls	2 731	2 040	2 707	...	28.2	-25.3	32.7	...
Hotels and guest house beds	2 609	2 747	3 475	3 644	-10.0	5.3	26.5	4.9
Estimated visitors expenditures ^d	76.1	95.0 ^d	104.0 ^d	...	14.3	24.8	9.5	...

Source: Antigua and Barbuda Department of Tourism and data supplied to CEPAL.

^aPreliminary figures.

^bThousands.

^cVisitors by air only.

^dMillions of East Caribbean dollars.

Table 7

**ANTIGUA AND BARBUDA: ESTIMATED NUMBER OF PERSONS (WAGE EARNERS
AND SELF-EMPLOYED) WORKING IN THE PRIVATE AND PUBLIC
SECTORS AT 31 DECEMBER 1978 AND 1979**

	1978			1979		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Agriculture, livestock and fishing	1 548	1 551	2 099	527	1 565	2 092
Quarrying	16	55	71	16	59	75
Manufacturing	20	1 427	1 447	17	1 522	1 539
Electricity, gas and water	392	-	392	319	-	319
Construction	553	1 816	2 369	5 67	1 909	2 476
Wholesale and retail trade, restaurants hotels and guest houses	56	4 515	4 571	55	4 812	4 867
Transport, storage and communications	460	1 967	2 427	540	2 056	2 596
Finance, insurance, real estate and business services	41	658	699	41	701	742
Community, social and personal services	3 844	3 387	7 231	3 820	3 502	7 322
Total	5 930	15 376	21 306	5 902	16 126	22 028

Source: A Synoptic Picture of the Employment Situation in the Years 1978 and 1979, by M. Lewis and V. Grosman.
Ministry of Labour, Antigua and Barbuda, March 1981.

Table 8

ANTIGUA AND BARBUDA: EXPORTS OF GOODS

	Thousands of East Caribbean dollars				Percentage breakdown		Growth rates	
	1978	1979 ^a	1980 ^a	1981 ^{a,b}	1978	1980 ^a	1979	1980 ^a
Total exports	33 883	27 261	74 994	32 953	100.0	100.0	-19.5	175.1
Food	861	716	7 008	451	2.5	9.3	-16.8	878.3
Beverages and tobacco	1 555	145	1 884	610	4.6	2.5	-90.6	1 195.9
Crude materials	772	32	353	11	2.3	0.5	-95.9	1 007.2
Minerals, fuels and lubricants	104	60	48	19	0.3	0.1	-42.4	-19.5
Chemicals	1 338	89	1 240	1 342	3.9	1.7	-93.3	1 286.7
Manufactured goods	3 996	1 352	5 204	2 312	11.8	6.9	-66.2	284.9
Machinery and transport equipment	6 807	6 917	18 898	11 084	20.1	25.2	1.6	173.2
Miscellaneous manufactures	17 546	17 949	40 357	17 114	51.8	53.8	2.3	124.8
Miscellaneous transactions	904	1	2	10	2.7	-	-99.9	260.0

Source: Statistical Division, Ministry of Finance and data supplied to CEPAL.

^aProvisional figures.

^bData for first five months.

The January to January price changes for gasoline, diesel oil, kerosene and LPG were 20, 25, 29 and 30% for the 1980-1981 period and 5, 9, 4 and 8% respectively during the 1981-1982 period. This led to smaller changes in the consumer price index for utilities, transportation and housing. Food items, clothing and household maintenance, however, showed higher levels of inflation than other components of the consumer price index.

Table 9
ANTIGUA Y BARBUDA: IMPORTS OF GOODS

	Thousands of East Caribbean dollars				Percentage breakdown		Growth rates	
	1978	1979	1980 ^a	1981 ^{ab}	1978	1980 ^a	1979	1980 ^a
Total imports	109 718	168 581	262 939	126 657	100.0	100.0	53.6	56.0
Food	31 911	70 609	90 222	49 359	29.1	34.3	121.3	27.8
Beverages and tobacco	2 942	6 048	9 325	4 494	2.7	3.5	105.6	54.2
Crude materials	2 065	2 953	5 904	3 503	1.9	2.2	42.9	100.0
Minerals, fuels and lubricants	1 635	800	4 836	2 800	1.5	1.8	-51.1	504.5
Animal and vegetables oils and fats	479	333	387	285	0.4	0.2	-30.5	16.1
Chemicals	9 689	8 496	21 308	6 664	8.8	8.1	-12.3	150.8
Manufactured goods	24 461	21 439	48 981	21 052	22.3	18.6	-12.4	128.5
Machinery and transport equipment	26 005	36 844	56 119	28 426	23.7	21.3	41.7	52.3
Miscellaneous manufactures	10 076	20 960	25 745	8 997	9.2	9.9	108.0	22.8
Miscellaneous transactions	455	99	112	77	0.4	-	-78.2	12.9

Source: Statistical Division, Ministry of Finance and data supplied to CEPAL.

^a Provisional figures.

^b Data for first five months.

Table 10
ANTIGUA AND BARBUDA: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981
Variation between annual averages				
Consumer price index	6.1	16.3	19.0	11.5
Food and beverages	6.2	13.1	17.1	12.6
Alcoholic beverages and tobacco	6.2	19.1	17.1	11.8
Housing	5.1	7.5	21.0	8.4
Utilities	5.5	39.2	41.9	6.0
Clothing and accessories	2.7	10.6	13.2	16.8
Transportation	5.5	42.9	18.1	8.8
Household operations and miscellaneous	12.2	15.0	16.2	13.4
Variation from December to December				
Consumer price index	6.5	21.1	16.2	7.0
Food and beverages	5.9	14.6	16.5	6.9
Alcoholic beverages and tobacco	8.0	26.4	12.0	7.1
Housing	5.2	17.0	15.2	7.9
Utilities	3.4	59.6	25.8	2.4
Clothing and accessories	-	18.9	11.1	12.6
Transportation	5.7	48.1	18.6	2.4
Household operations and miscellaneous	25.9	14.6	14.2	12.9

Source: Statistical Division, Ministry of Finance, Antigua and Barbuda.

Table 11

**ANTIGUA AND BARBUDA: CENTRAL GOVERNMENT
INCOME AND EXPENDITURE**

	Millions of East Caribbean dollars				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
1. Current income	37.1	43.5	53.5	77.2	12.1	17.3	23.1	44.5
Tax revenue	29.2	35.8	49.2	56.8	21.2	22.7	37.4	15.7
Direct	3.9	3.8	7.9	10.2	-10.7	-1.6	106.5	30.0
Indirect	25.3	32.0	41.3	46.6	28.3	26.5	29.2	12.9
On foreign trade	10.5	11.9	16.4	17.1	32.9	13.6	37.8	4.5
Other current revenue	7.9	7.7	4.3	20.4	-12.2	-2.9	-43.4	369.9
2. Current expenditure	43.9	58.6	57.2	93.3	-	33.3	-2.2	63.0
3. Savings on current account (1 - 2)	-6.8	-15.1	-3.7	-16.1	-36.9	119.7	-75.1	326.3
4. Capital expenditure	5.2	...	23.7	18.5	-27.7	...	...	21.9
5. Total expenditure (2 + 4)	49.1	...	80.9	111.8	-3.9	...	...	38.2
6. Fiscal deficit surplus (1 - 5)	-12.0	...	-27.4	-34.6	-33.3	...	...	25.9

Source: Ministry of Finance, Antigua and Barbuda.

^aPreliminary figures.

5. Monetary and fiscal policy

Direct taxes on wages and salaries were abolished in 1976 and a number of indirect taxes introduced. The total collected by the Inland Revenue Department increased substantially during 1981 as the result of a revision of tax structures and measures, greater efficiency in collection, and some economic growth. Thus, company tax increased from EC\$ 5.4 million in 1980 to EC\$ 9.6 million in 1981; the 20% tax on external telecommunications yielded EC\$ 998 700, an increase of 53%; foreign currency levies of 1.0% yielded some EC\$ 4.0 million, and stamp duties on sales and legal transactions amounted to EC\$ 2.1 million, an increase of 17%. Licencing categories were extended and fees increased during 1981 to yield some EC\$ 1.5 million: an increase of 126% over 1980. Property tax levied on buildings amounted to EC\$ 0.9 million.

In the tourism sector, hotel and guest taxes increased by 12% to EC\$ 4.3 million and a 10% tax on all airline tickets realized EC\$ 0.7 million. Embarkation fees paid by airline passengers yielded EC\$ 0.68 million—a marginal decrease from the high of EC\$ 0.71 million in 1980—while the tax on cruise ship passengers had its first full year of operation and yielded EC\$ 0.7 million.

Import duties amounted to EC\$ 17.4 million, while the consumption taxes associated with these imports yielded EC\$ 16.0 million.

Data relating to commercial banking activities are available only up to the end of September 1981, at which time demand deposits amounted to EC\$ 40 million (an increase of EC\$ 8 million over the December 1980 figures) time deposits EC\$ 69 million (an increase of EC\$ 5 million), and savings deposits EC\$ 67 million (an increase of just over EC\$ 7 million).

Total loans and advances to 31 December 1981 amounted to EC\$ 188 million, some EC\$ 51 million over the 1980 full-year figure. Growth in loans considerably exceeded that of savings, which showed an increased of EC\$ 9 million.

With regard to public financing, treasury bills held by commercial banks increased from EC\$ 8.5 million at the end of 1980 to EC\$ 8.8 million at 30 September 1981. Loans and advances to government and statutory bodies increased from EC\$ 29 to EC\$ 32 million during the same period. Government deposits with commercial banks amounted to EC\$ 8 million and the net foreign assets of the treasury EC\$ 1.7 million at 30 September 1981.

ARGENTINA

1. Recent economic trends: Introduction and summary

The evolution of the Argentine economy was very unfavourable in 1981. Thus, the gross domestic product went down by over 6%, the rate of inflation rose sharply, the unemployment rate doubled, the external debt increased considerably, and there was a new and substantial drop in the international reserves (see table 1 and figure 1).

The decline in economic activity was not only marked but also gathered speed in the course of the year, to such a point that in the second half the gross domestic product fell by 11% compared with the same period in 1980. In sectoral terms, the biggest drops were in manufacturing, construction and commerce. Thus, industrial production up to the end of 1981 was below that registered at the beginning of the 1970s. In contrast the agricultural sector increased by a little over 3% as a result of favourable weather conditions and the better financial situation of the production units in the pampas areas, which had a better chance than industrial enterprises of clearing up their liabilities and hence eliminating restrictions on their production capacity.

In contrast with the previous year, the 1981 recession was accompanied by a marked drop in imports of goods, the value of which went down by 12% after its spectacular increases of 73% in 1979 and 56% in 1980. This, together with an increase of 14% in the total amount of exports, brought about a turnaround in merchandise trade, which, after registering a deficit of close to US\$ 1 400 million in 1980, generated a surplus of rather more than US\$ 900 million in 1981. Even so, the international reserves went down by over US\$ 3 400 million. This decline, which considerably exceeded that of close to US\$ 2 700 million registered the previous year, was mainly due to the very substantial increase recorded once again in payments of profits and interest and the sharp drop in the net inflow of capital.

Thus, net remittances of profits and interest more than doubled, rising from US\$ 1 500 million in 1980 to US\$ 3 300 million in 1981. In these circumstances, and notwithstanding the noteworthy improvement in the trade in goods, the deficit on current account went down by only US\$ 700 million and was still over US\$ 4 billion for the second year running.

The net inflow of capital, for its part, went down from nearly US\$ 2 200 million in 1980 to less than US\$ 900 million in 1981. This drop occurred in spite of the fact that between these two years the net inflow of long-term capital rose dramatically from US\$ 4 500 million to US\$ 9 500 million, for this increase was more than offset by the even more spectacular increase in the outflow of short-term capital, which more than quadrupled from US\$ 2 000 million in 1980 to over US\$ 8 400 million in 1981.

The effort to bring the balance of payments into equilibrium led to a sharp currency devaluation which reached the exceptional rate of nearly 400% between the end of 1980 and that of 1981. The higher cost of foreign exchange, together with the drop in the demand for money due to the greater expectations of inflation and a slightly more rapid expansion of the money supply than in the year before, helped to send up prices more rapidly. Thus, the consumer price index, which in 1980 had increased by less than 100% for the first time since 1974, went up by over 130% in 1981, while the growth rate of wholesale prices more than trebled, rising from 58% to 180%. The most pronounced increases were in the prices of goods directly connected with foreign trade, such as imported products (238%) and agricultural products (212%).

This acceleration in inflation was accompanied by a considerable decline of nearly 11% in real wages and considerable increases in the unemployment rate in all the main cities of the country.

Up to March 1981, the economic policy continued to be based on the programme of financial liberalization, reductions in tariffs and convertibility of the national currency at a previously announced exchange rate. Although this programme had managed to achieve some reduction in the growth rate of prices, the serious difficulties which arose in its application caused it finally to be abandoned.

During 1979 and part of 1980, the disparity between the internal and external interest rates and the announced devaluation stimulated the inflow of short-term capital. This external indebtedness financed the accumulation of international reserves and greater spending by residents, which went mainly on the purchase of non-tradeable and imported goods, to the detriment of the situation of local producers exposed to international competition. The deterioration in the situation of such producers and of those producing exportable goods not only

Table 1

ARGENTINA: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators						
Gross domestic product at market prices (billions of 1970 dollars)	34.2	36.4	35.1	37.6	38.2	35.8
Population (millions of inhabitants)	25.7	26.0	26.4	26.7	27.0	27.4
Per capita gross domestic product (1970 dollars)	1 329	1 397	1 332	1 409	1 411	1 309
Annual growth rates						
B. Short-run economic indicators						
Gross domestic product	-0.5	6.4	-3.4	7.1	1.4	-6.1
Per capita gross domestic product	-1.8	5.1	-4.7	5.8	0.1	-7.3
Gross domestic income ^b	-0.7	5.4	-2.9	2.0	8.4	-6.6
Terms of trade (goods and services)	-3.9	-4.5	1.4	8.7	13.3	-10.5
Current value of exports of goods and services	31.3	42.5	13.8	22.7	7.9	9.4
Current value of imports of goods and services	-20.1	35.8	5.9	75.7	49.0	-12.0
Consumer prices						
December - December	347.5	160.4	169.8	139.7	87.6	131.3
Variation between annual averages	444.0	176.0	175.5	159.5	100.8	104.5
Money	256.7	124.9	170.3	145.5	97.8	66.2
Industrial wages ^c	266.1	171.9	170.6	198.0	124.6	82.6
Rate of unemployment ^{d,e}	4.5	2.8	2.8	2.0	2.2	4.4
Current income of government	642.1	228.1	154.0	170.0	79.8	97.9
Total expenditure of government	...	...	138.9	163.2	110.6	139.3
Fiscal deficit/total expenditure of government ^e	...	26.4	21.7	19.7	31.4	43.3
Millions of dollars						
C. External sector						
Trade balance (goods and services)	1 122	1 836	2 467	353	-3 267	-751
Balance on current account	657	1 290	1 836	-535	-4 774	-4 057
Variation in international reserves	919	1 827	2 236	4 424	-2 666	-3 452
Total external debt	9 738	11 761	12 496	19 034	27 162	35 671

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cVariation between annual averages.

^dSimple average of results of surveys for each year in the Federal Capital and Greater Buenos Aires.

^ePercentages.

gave rise to energetic complaints but also contributed to the financial crisis of April 1980, as a result of which the monetary authorities were obliged to restore the total guarantee on bank deposits and advance substantial amounts of money to financial institutions. At the same time, the higher demand for foreign exchange caused by the substantial current account deficit led to a drop in the international reserves.

Thus, at the end of 1980 the economy was displaying some serious distortions. Heavy external debt had been contracted, but it was reflected in an increase in consumption and transfers of residents' funds to the exterior, rather than in greater investment. The debts of business with the domestic financial system had also grown considerably under the pressure of the high rates of interest, and the possibilities for their payment under normal conditions seemed doubtful. The structure of relative prices, which was clearly biased in favour of non-tradeable goods, was also difficult to sustain.

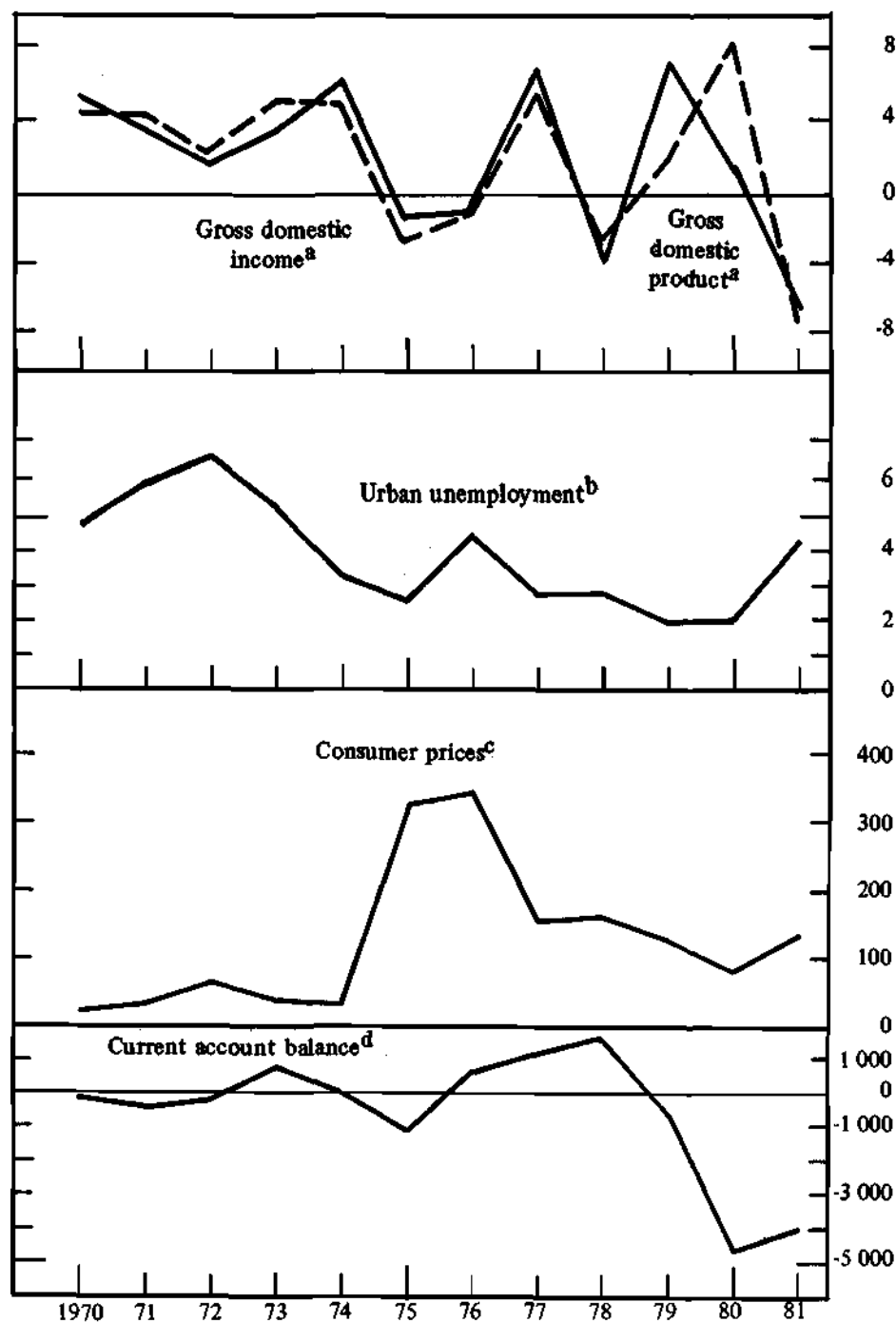
In order to correct this latter distortion, two alternative methods were available. The first was to trust in the mechanisms of adjustment of the system, through a fixed rate of exchange. This meant that there would be a period during which domestic prices would grow less than international inflation or would even go down in absolute terms. If this option were adopted, however, there would be a risk not only of bringing about a contraction in the rate of activity, which had already slackened, but of actually provoking deflation, which would have placed the debtor sectors in even grater difficulties. Moreover, the maintenance of the exchange rate would have called for strict controls on money issue, whereas the monetary authorities were under pressure to expand this in view of the weakness of the financial system and the increase in the fiscal deficit.

Thus, it appeared more probable that another method, based mainly on adjustment of the exchange rate, would be adopted. As a result, the expectations of devaluation (also stimulated by the prospect of the change in administration in March 1981) became very intense at the beginning of the year and led to a severe loss of reserves. The increase of 10% in the exchange rate decided upon in February, however, which altered the previously announced patterns, speeded up the drop in reserves rather than checking it, as mistrust in the maintenance of the exchange system became generalized.

In these circumstances, the new government authorities decided on a 30% devaluation in April, assuming that the higher price of competing imports would help to restore industrial activity and discourage speculation against the peso, so that a recovery could be achieved in the international reserves. However, this did not occur. The increase in the exchange rate did indeed reduce real liquidity and diminish imports. However, the substitution of locally produced articles for imported products did not serve to offset the drop in domestic demand, and industrial firms —also affected by persistent financing difficulties and higher costs of inputs— reduced their production and their demand for labour. Nor did the pressures on the exchange market disappear either. The main causes of the money issue —the need to support the fragile financial system and to finance the fiscal deficit— were not corrected even though the authorities tried to restrict the money supply through increases in the compulsory bank reserves. Furthermore, the expectations of a larger expansion in the money supply tended to reduce the demand for money and thus helped to raise the prices of goods and foreign exchange. In addition, the uncertainty regarding the future course of economic policy, and perhaps also regarding the possibility of being able to pay the external debt commitments, also encouraged the purchase of foreign currency. This situation made it necessary to carry out a further devaluation in June, which was accompanied by the division of the exchange market into two parts. Nevertheless, the excessive demand for foreign currency persisted, except for a few intervals, throughout the year, and although the exchange rates rose much more than domestic prices, the Central Bank had to intervene to avoid still greater depreciation.

Towards the end of the year, the situation was still critical. As already noted, the devaluations were not sufficient to balance the external accounts, and in addition to this continuing imbalance there was the build-up of heavy commitments for 1982 and the following years. The balance-of-payments problems originating from domestic factors were also compounded by those due to the growth in real interest rates on international markets and the deterioration of the terms of trade.

Figure 1
ARGENTINA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate in the Federal Capital and in Greater Buenos Aires.

^cPercentage variation, December-December.

^dMillions of dollars.

These conditions made it essential to generate a bigger surplus on the goods and services account and tended to drive up the real exchange rate needed to secure a balance on the external accounts. At the same time, the rate of inflation had accelerated and real wages were showing a pronounced decline. Furthermore, the drop in sales and the high real interest rate on loans to enterprises endangered the survival of firms with large debts.

Economic policy measures in 1981, as already noted, were oriented mainly towards reducing the external imbalance. Measures were also proposed to relieve the situation brought about by the heavy indebtedness of enterprises, through a system of consolidation and refinancing of bank credits for periods of up to seven years. This system was only applied in a partial manner, however. Moreover, in December the orientation of economic policy was changed because, after it had been decided to unify and float the exchange rate, economic policy objectives were centered on the control of inflation by severely reducing public expenditure and the issue of money.

2. Trends in economic activity

(a) *Global supply and demand trends*

In 1981 the supply of goods and services went down by almost 7.5% because of the notable drop in the product and the significant reduction of close on 18% in the volume of imports of goods and services (see table 2). This represented an interruption in the tendency towards increased openness of the economy observed over the last five years.

The components of global demand which suffered the sharpest reductions were gross fixed domestic investment and changes in stocks. Expenditure on durable production equipment went down by 32% after several years of growth, so that the total volume of investment in this type of goods was lower than that registered at the beginning of the 1970s. The same type of decline occurred in almost all sectors of activity. Purchases of equipment for the agricultural sector

Table 2

ARGENTINA: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentage Breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	40 916	42 774	39 627	106.9	110.6	9.6	4.5	-7.4
Gross domestic product at market prices	37 620	38 164	35 839	100.0	100.0	7.1	1.4	-6.1
Imports of goods and services ^b	3 296	4 610	3 788	6.9	10.6	51.0	39.9	-17.8
Total demand	40 916	42 774	39 627	106.9	110.6	9.6	4.5	-7.4
Domestic demand	37 439	39 689	36 166	100.9	100.9	10.8	6.0	-0.9
Gross domestic investment	8 266	9 452	7 385	22.5	20.6	9.9	14.3	-21.9
Gross fixed investment	8 249	9 141	7 720	22.0	21.5	6.4	10.8	-15.5
Construction	5 132	5 748	5 416	13.6	15.1	2.9	12.0	-5.8
Machinery and equipment	3 118	3 393	2 304	8.3	6.4	12.7	8.8	-32.1
Changes in stocks	17	311	-335	0.6	-0.9			
Total consumption	29 173	30 237	28 781	78.3	80.3	11.1	3.6	-4.8
General government	3 448	3 517	3 562	9.4	9.9	1.5	2.0	1.3
Private	25 725	26 720	25 219	68.9	70.4	12.5	3.9	-5.6
Exports of goods and services ^b	3 477	3 086	3 461	6.0	9.7	-1.1	-11.3	12.2

Source: ECLA, on the basis of figures supplied by the Central Bank of Argentina.

^a Preliminary figures.

^b The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

remained at the very low level of the year before, while in industry the unfavourable evolution of capital formation became generalized and was accompanied by significant idle capacity in almost all branches.

Likewise, construction also markedly reduced its level of activity, especially in connection with public sector projects (-10%). Construction of private projects went down only slightly (-2%), thanks to a higher level of expenditure in the early months of the year, but in the last quarter the drop in this type of construction was very marked (around 15%). Generally speaking, construction for the private sector was severely limited by the high interest rates and the lack of sources of long-term financing. Activity was concentrated on the completion of projects which had already been begun, but there were also delays in such completion and even many cases of projects being paralysed. There was a marked fall in the initiation of new construction work.

Global consumption went down by almost 5% after two years of steady growth. Despite the limitations on the accuracy of the analysis caused by the residual nature of the estimates of this item in the national accounts, salient features to be noted are the marked drop in the imported content of consumption due to the changes made during the period in exchange policy, the notable decline in expenditure on durable goods, and the substantial contraction in purchases of wage goods, which was reflected, for example, in the drop of over 21% in the output of the textiles and clothing industry.

In contrast, there was a marked rise in 1981 in the volume of exports of goods and services, which were stimulated by the sharp increase in the real exchange rate.

Table 3

ARGENTINA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of 1970 dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1979	1981 ^a	1979	1980	1981 ^a
Gross domestic product^b	33 331	33 813	31 753	100.0	100.0	7.1	1.4	-6.1
Goods	16 304	16 061	14 695	49.5	46.3	7.1	-1.5	-8.5
Agriculture, hunting, forestry and fishing	4 501	4 234	4 364	13.0	13.7	4.1	-5.9	3.1
Mining and quarrying	789	834	833	2.4	2.6	6.4	5.6	-
Manufacturing	8 683	8 354	7 018	27.6	22.1	10.2	-3.8	-16.0
Construction	2 331	2 639	2 480	6.6	7.8	2.7	13.2	-6.0
Basic services	4 766	4 873	4 716	13.7	14.9	9.0	2.2	-3.2
Electricity, gas and water	1 105	1 191	1 187	2.4	3.7	10.7	7.8	-0.3
Transport, storage and communications	3 661	3 682	3 529	11.2	11.1	8.4	0.6	-4.2
Other services	12 260	12 879	12 341	36.8	38.9	6.4	5.0	-4.2
Wholesale and retail trade, restaurants and hotels ^c	6 287	6 712	6 076	19.1	19.1	10.5	6.8	-9.5
Ownership of dwellings	671	684	701	2.0	2.2	2.0	2.0	2.5
Community, social and personal services ^d	5 302	5 483	5 564	15.6	17.5	4.3	7.5	3.1
Government services	3 148	3 211	3 252	9.5	10.2	1.5	2.0	1.3

Source: ECLA, on the basis of figures supplied by the Central Bank of Argentina.

^a Preliminary figures.

^b As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

^c Including financial institutions, insurance, real estate and business services, except ownership of dwellings.

^d Including restaurants and hotels.

Table 4

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of 1970 pesos				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Gross agricultural product at factor cost ^b	12 759	13 277	12 491	12 874	1.3	4.1	-5.6	3.1
Crop farming	6 927	7 364	7 044	7 539	2.9	6.3	-4.3	7.0
Stock-raising	5 336	5 375	5 012	4 954	-	0.7	-6.8	-1.2

Source: Central Bank of Argentina.

^aPreliminary figures.

^bIncludes agricultural construction, hunting, forestry, timber extraction and fishing.

(b) *Evolution of the main sectors*

(i) *The agricultural sector.* As already noted, in 1981 the agricultural sector was the only goods-producing activity which managed to increase its product. This rose by rather more than 3% as a result of a 7% rise in crop farming production and a 1% drop in that of the stock-raising subsector (see tables 3 and 4).

The evolution of the crop farming subsector was uneven. Production of cereals, vegetables and pulses expanded, whereas that of oilseeds, fruit and industrial crops went down. These differences were due not only to weather and market factors, but also to policy changes.

Thus, the increase in the cereals harvest—which is the main determining factor in the increase in the sectoral product—was due not only to the larger areas cultivated both in the 1980-1981 and the 1981-1982 seasons, but also to the weather conditions, which favoured high yields. An important factor in the expansion of the area cultivated was the improvement in cereal prices deriving from the increase in the real exchange rate as from March 1981. This adjustment more than made up for the drop in international prices, but this was not the case with oilseeds. The consequent change in relative prices favoured an increase in the area sown with cereals, to the detriment of that devoted to the production of oilseeds (see table 5). Altogether, however, there was more stimulus for the production of grains in general because of the improvement in their relative prices compared with those in the cattle-raising subsector, which was affected by a process of running down stocks which will be described later.

The modification of exchange policy also stimulated the production of other crops largely grown for export (such as beans) or subject to external competition (such as certain kinds of vegetables), whose sale on the domestic market was to some extent made more difficult in previous years by imports. On the other hand, the adverse weather conditions affected fruit production and thus offset the stimulus for the production of export fruit caused by the improvement in the exchange rate.

As regards industrial crops, there were general reductions (in sugar cane, cotton, tobacco and tea) associated with the deterioration in prices. Although these products are exported and should therefore have benefited from the devaluation, the marked drop in their international prices (in the case of cotton and sugar) or the fact that the devaluations of the peso took place when the harvest was already over (in the case of tea and tobacco) meant that the effects of the new exchange policy did not show themselves in 1981. Furthermore, weather conditions were particularly unfavourable in the case of cotton.

In the stock-raising subsector, wool production went down—a long-standing phenomenon associated with the steady reduction in stocks—while that of poultry and eggs remained relatively stable and milk production slightly increased. The decisive factor in the variation in the stock-raising subsector, however, was the drop in meat production. This was due to the continued running down of stocks in the cattle-raising subsector, which had begun in the period July 1977-

June 1978. Between that time and 1 July 1981, stocks were reduced by 5.1 million head (8.6%), while between July 1980 and June 1981 the reduction was 1.6 million head (2.9%). The subsequent evolution and structure of slaughtering give grounds for assuming that this process continued in the second half of 1981 (see table 6).

Apart from the movement of relative prices which favoured grain production, and also the substantial improvement in crop farming productivity compared with that of stock-raising, the evolution of the latter subsector was also affected by the differential effect of the high interest rates, which are much more unfavourable for stock-raising than for crop farming because in stock-raising capital is immobilized for a much longer time. Furthermore, the restricted international market and the scanty prospects of improvements in the short term (depending on a recovery in the industrialized economies), together with the depressed domestic market, did not give rise to favourable expectations regarding the immediate future of this branch of activity.

To sum up, the modifications made in exchange policy in the first part of 1981 began to have positive effects on the crop farming subsector, subject to the natural lags due to the markedly seasonal nature of such farming activities. In view of conditions on domestic and external markets, however, the modifications in exchange policy did not have the same effects for all activities, a favourable change in relative prices being observed in the case of pampas products, and within these, especially grains.

It was not possible to expect a much greater response by the end of 1981 to the improvement in relative prices and profitability than that which actually took place, since in the previous four years there had been a reduction in the capital devoted to agricultural productions (reduction in cattle stocks and working capital), because the money in question had been devoted to the payment of loans and to investments in other activities, and consequently a certain area of land was under-utilized. The bringing back of these resources into production would require lasting stimuli—such as favourable relative prices—for a sufficiently long period, and the existence of suitable social and political conditions for encouraging reinvestment in the sector.

(ii) *Mining.* Mining activity remained at much the same level as in 1980 (see table 7). Petroleum production, which had grown by 4% the previous year because of the bringing into operation of new oilfields, only increased by a little under 1%. The lower growth rate was due to the critical financial situation of the State oil company Yacimientos Petroleros Fiscales (YPF).

Table 5
ARGENTINA: AREA SOWN AND CROP PRODUCTION

	Area sown (millions of hectares)				Production					
					Millions of tons			Growth rates		
	Average 1976/77- 1980/81	1979/ 1980	1980/ 1981	1981/ 1982	Average 1976/77- 1980/81	1979/ 1980	1980/ 1981	1979	1980	1981
Cereals	16.1	14.4	16.8	16.6	25.2	18.9	29.2	13.1	-24.7	54.5
Wheat	5.6	5.0	6.2	6.5	8.2	8.3	7.8	52.8	2.5	-6.0
Grain sorghum	2.4	1.9	2.4	2.7	6.1	3.0	7.6	-13.9	-51.6	153.3
Maize	3.3	3.3	4.0	3.7	9.1	6.4	12.5	-10.3	-26.4	95.3
Oilseeds	4.5	5.6	4.4	4.7	5.4	6.1	5.9	21.6	-1.6	-3.3
Linseed	0.9	1.1	0.8	0.9	0.7	0.7	0.6	-25.0	16.7	-14.3
Sunflower	1.8	2.0	1.4	1.6	1.4	1.7	1.3	-12.5	21.4	-23.5
Soya	1.5	2.1	1.9	2.1	3.0	3.5	3.9	54.2	-5.4	11.4
Total annual crops	26.2	25.5	26.2	26.3						
Total area sown	27.4	26.6	27.3	27.4						

Source: Ministry of Agriculture.

Table 6

ARGENTINA: CATTLE SLAUGHTERING AND PRICES

Period	Stocks ^a (millions of head)	Slaugh- tering (percent age) ^b	Yield in kilo- grammes of dressed meat per head	Proportion of cows and heifers in typified slaugh- tering	Annual per capita consump- tion (kilo- grammes)	Prices of steers in comparison with:	
						Indus- trial prices ^{c,d}	Price of wheat ^{e,f}
1975	56.7	12.1	21.4	26.2	87.1	0.49	2.96
1976	58.2	14.1	24.2	24.5	87.3	0.75	4.39
1977	59.3	15.8	26.6	26.7	91.0	0.73	5.22
1978	59.0	16.5	28.0	26.5	90.4	0.82	4.88
1979	56.9	14.1	24.8	23.3	84.7	0.95	6.69
1980	55.8	14.6	26.2	29.4	90.1	0.71	4.88
1981 ^f	54.2	15.0	27.7	32.3	83.7	0.70	3.62
III		3.8	193	33.7	84.0	0.65	3.17
IV		3.6	204	29.8	85.7	0.69	3.34

Source: National Meat Board; Ministry of Agriculture; and ECLA, on the basis of official data.

^aAt 30 June of each year.

^bAnnual slaughtering as a percentage of stocks at 30 June of each year.

^cAnnual and quarterly averages.

^dIn 1970 pesos.

^eKilogrammes of wheat per kilogramme of steer.

^fPreliminary figures.

Table 7

ARGENTINA: INDICATORS OF MINING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Gross mining product at factor cost (millions of 1970 pesos)	2 189	2 328	2 459	2 458	1.9	6.3	5.6	-
Production of some important minerals								
Petroleum (millions of m ³)	26.3	27.4	28.6	28.8	4.8	4.5	4.1	0.9
Marketable coal (thousands of tons)	434	727	389	498	-18.6	67.5	-46.5	28.0
Injected natural gas ^b (millions of m ³)	6 143	7 360	7 927	7 950	-5.5	19.8	7.7	0.3

Source: Central Bank of Argentina.

^aPreliminary figures.

^bAfter deduction of imports.

—which in turn was due to the price and borrowing policy followed in previous periods— and to difficulties regarding the production of the enterprises operating under contract, because of the deterioration in their profitability. As a result, idle capacity increased and there were delays in agreements for increasing the areas operated under concessions. Despite this stagnation of production, however, the smaller domestic consumption led to a drop of 43% in oil imports and a notable expansion of 120% in the value of exports of crude and petroleum products.

Natural gas production at the wellhead, for its part, virtually stagnated with respect to the previous year for reasons of demand, in spite of the completion of the Centre-West gas pipeline, which began to operate in the latter part of the year, thus appreciably increasing transport capacity. This performance was in sharp contrast with the considerable increases registered in the previous two years (20% in 1979 and 8% in 1980).

Production of metallic minerals went down by a little over 2%. Exports of such minerals increased by over 15%, but deliveries for domestic consumption went down. There was also a decline in production of non-metallic minerals for construction, in line with the lower level of activity in this sector.

(iii) *Manufacturing.* During 1981, industrial production went down by 16% in comparison with 1980. The volume of activity thus dropped below that of the early 1970s, and the contraction in the industrial sector, which had already lasted for ten quarters by the end of 1981, was the longest and severest in the last three decades (see table 8 and figure 2).

In the first part of the year, as in 1980, the activities most seriously affected were those exposed to external competition as a result of the tariff and exchange policies tried out since the end of 1978. This was the case of the paper, textile and clothing industries. Another factor of contraction in this period was the difficulty in exporting caused by the deterioration in the real exchange rate and the restrictions on access to markets abroad. This particularly affected the meat packing industry, chemicals, iron and steel, and machinery and motor vehicles.

The economic measures adopted as from the second half of the year (especially the devaluation of the peso) favourably influenced the export conditions for industrial goods such as meat and meat products, textiles, and iron and steel. They also improved the competitiveness of industries producing importable goods.

These positive factors were offset, however, by the problems caused to enterprises by their high level of indebtedness and the persistently high real interest rates. The combination of these two factors continued to weigh on the financial situation of firms in spite of the measures adopted towards the middle of the year in order to try to solve the financial problems and this considerably

Table 8

ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Gross manufacturing product at factor cost (millions of 1970 prices)	23 248	25 616	24 644	20 703	10.2	-3.8	-16.0
Food	5 000	5 262	5 359	5 183	5.2	1.8	-3.3
Textiles	2 613	2 897	2 460	1 933	10.9	-15.1	-21.4
Wood	414	460	446	390	11.1	-3.0	-12.6
Paper	1 289	1 312	1 224	1 010	1.8	-6.7	-17.5
Chemicals	3 218	3 615	3 649	3 418	12.3	0.9	-6.3
Non-metallic mineral	1 286	1 377	1 329	1 120	7.1	-3.5	-15.7
Basic metal industries	1 270	1 486	1 368	1 197	17.0	-7.9	-12.5
Machinery and equipment	6 552	7 438	7 107	5 022	13.5	-4.4	-29.3
Other industries	1 606	1 769	1 702	1 430	10.2	-3.8	-16.0
Production of some important manufactures							
Pig iron ^{b,c}	1 820	1 938	1 806	1 736	6.5	-6.8	-3.9
Steel ^c	2 783	3 203	2 702	2 517	15.1	-15.6	-6.8
Rolled products ^c	2 527	3 010	2 642	2 128	19.1	-12.2	-19.4
Motor vehicles ^d	180	253	282	172	40.6	11.5	-39.0
Tractors ^{e,f}	6 309	7 117	3 481	1 507	12.8	-51.1	-56.7

Source: Central Bank of Argentina; Centro de Industriales Siderúrgicos; Asociación de Fabricantes de Automotores; Asociación de Fabricantes de Tractores.

^aPreliminary figures.

^bIncluding sponge iron.

^cThousands of tons.

^dThousands of units.

^eUnits.

^fSales of domestic production on the internal market.

Table 9

ARGENTINA: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Construction permits granted (thousands of m ²)							
Federal Capital	4 721	1 442	1 634	1 430	-69.5	13.3	-12.5
Córdoba	810	705	457	355 ^b	-13.0	-35.2	-22.3
Paraná	173	287	267	224	65.9	-7.0	-16.1
Rosario	308	...	450 ^c	400 ^c	...	...	-11.1
Salta	230	151	233	166	-34.3	54.3	-28.8
Consumption of cement^d	6 313	6 762	7 050	6 535	7.1	4.3	-7.3
Public works	1 483	1 645	1 891	1 794	10.9	15.0	-5.1
Private works	4 830	5 117	5 159	4 741	5.9	0.8	-8.1
Deliveries of reinforcing rods for the domestic market^d	427	551	539	396	29.0	-2.2	-26.5

Source: National Institute of Statistics and Censuses; Asociación de Fabricantes de Cemento Portland; Instituto Argentino de Siderurgia.

^aPreliminary figures.

^bFirst six months.

^cEstimates.

^dThousands of tons.

restricted their possibilities of production, leading many of them to reduce the level of activity and employment, thus giving rise to a contractive spiral which affected real wages and weakened demand, especially for wage goods. Furthermore, the high interest rates on consumer credits discouraged demand for durable goods. A further contractive factor was the reduction in public sector investment.

As a result, the industrial recession grew worse during the second part of the year. In the third quarter, production was almost 24% less than in the same period of the previous year, and in the fourth quarter it was 20% lower than a year before.

The sectors which declined most during the year were the industries producing capital goods and consumer durables. The motor vehicle industry, which had turned in a good performance during 1980, was perhaps the clearest example of this paralysation of industry, sinking to levels comparable to those of the 1960s. This situation was caused by the persistence of high interest rates—as already noted—and unsuitable financing conditions, together with the policy of increasing sales prices above the general level at a time when demand was shrinking. Naturally, this decline in the motor industry also directly influenced the motor components, metal products, rubber, paint and steel industries.

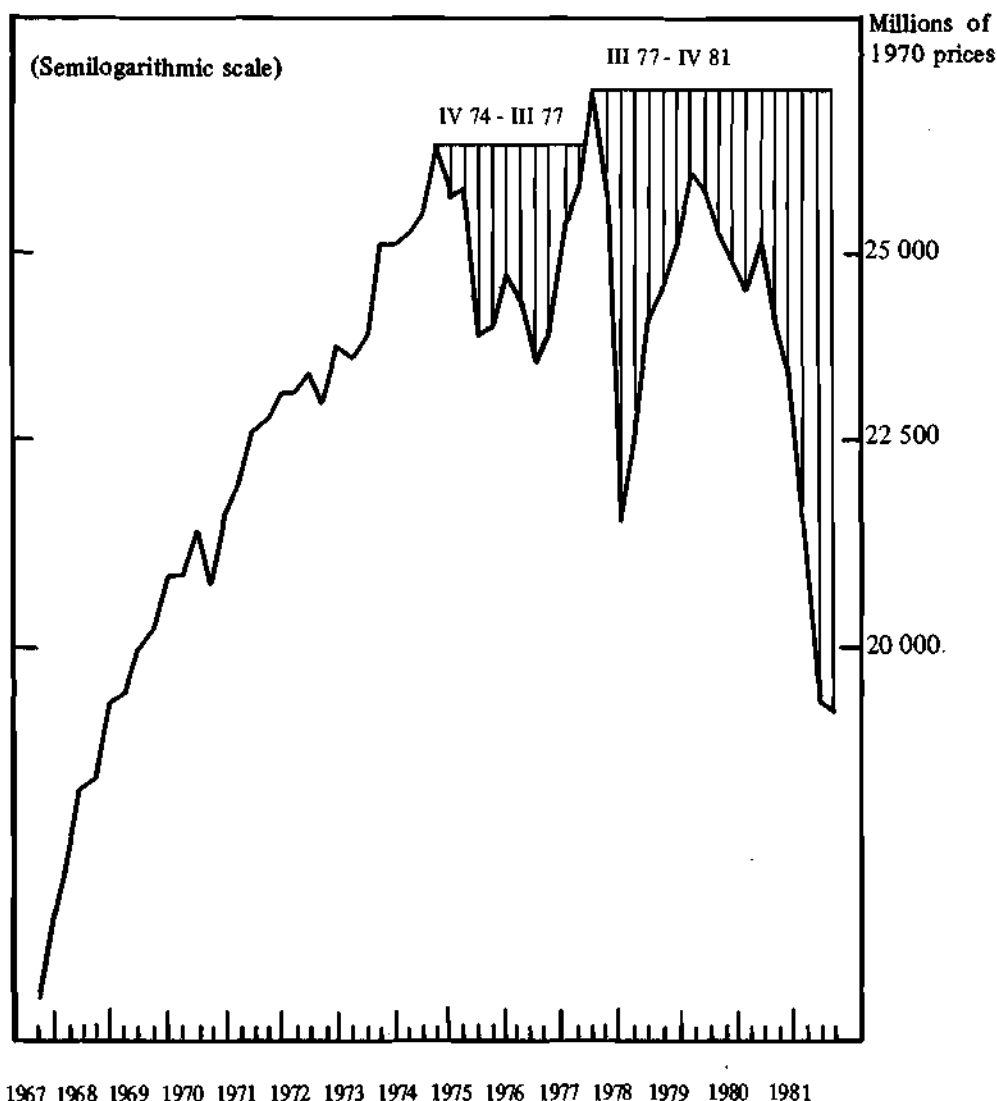
Steelmaking activity declined sharply to a point where barely 60% of the installed capacity was being used. During the year, mergers of enterprises took place, with the aim of reducing costs, and towards the last quarter of the year activity picked up somewhat due to an increase in exports.

The paper and pulp industries also declined markedly (-17.5%), although a positive factor was the larger production of newsprint, which is subject to special conditions.

The chemical industry as a whole reduced its activity by over 6% even though new petrochemical projects initiated in previous years were put into operation and there was an increase in exports of petrochemical products in an effort to offset the drop in domestic consumption. The production of pharmaceuticals went down substantially in the second part of the year due to the decline in demand.

Despite the drop in the competitiveness of imported products in the second part of the year and the reduction in purchases by Argentine travellers abroad after the April devaluation, the

Figure 2
ARGENTINA: GROSS DOMESTIC PRODUCT OF THE MANUFACTURING SECTOR^a



Source: ECLA, on the basis of official data.

^aThe shaded areas represent period of low activity in which the industrial product did not manage to regain its previous maximum. The surface of these areas measures the value of the product lost as a result of such contractions. Since 1968 there have been only two such "valleys": IV/1974 - III/1977, when the loss of the product was equivalent to a little over 2/3 of one quarter's production, and III/1977 - IV/1981, when the loss was equal to 2 1/3 quarters. In the most acute recession in recent decades (I/1972 - I/1963) the loss amounted to less than one quarter, a similar amount to the loss in 1981.

textile and clothing industry did not manage to register a recovery and its high financial costs led to problems of dismissal of personnel and closure of installations. During the year as a whole, activity in this industry went down by 21% (see table 8).

Production of foodstuffs—which went down by a little over 3%—turned in the least unfavourable performance in the sector on account of the inelastic nature of demand for many food products and the greater supply of agricultural goods because of better harvests. Although meat exports were adversely affected by unfavourable prices abroad, they increased towards the end of the year.

In the last part of the year this contractive situation was compounded by an increase in political uncertainty. All this had an unfavourable influence on expectations, and as is usual in acute crisis situations there was a paralysation of projects aimed at achieving better utilization of existing installed capacity, and also of new investment.

(iv) *The construction sector.* During 1980 construction activity as a whole went down by around 6%. The decline was more pronounced in the case of public sector construction investment (-10%) than in the private sector (-2%).

The demand for construction materials went down in line with the smaller volume of activity. Thus, deliveries of cement dropped by 7% and those of steel products by 26.5%. The area of construction projects for which permits were granted in the main cities likewise went down markedly (see table 9).

The objective of reducing the fiscal deficit affected the execution of projects already begun or led to the postponement of large-scale new projects, such as the Yacyretá hydroelectric power station. It should be noted that many of the projects proposed for execution by private enterprise under the system of concessions were also postponed.

In the private sector, the reduction in housing construction was due, as in 1980, to the high interest rates, the lack of suitable financing machinery, and the decline in demand caused by the drop in real income. Another negative influence was the reduction in the National Housing Fund due to the change in its sources of financing, which mostly consisted of a payroll tax. Non-residential private construction, for its part, was affected by the drop in industrial sector investment.

The financial situation of construction firms with growing idle capacity became difficult, and many firms went out of the market: a process which became more marked towards the end of the year. This occurred in spite of the fact that the cost of construction increased less than the general level of prices, largely because the labour market situation depressed wages in the sector.

(v) *The electricity sector.* The generation of electric power in 1981 went down by nearly 1%, thus marking a departure from the trend observed since the 1960s.

The installed capacity increased with the bringing into operation of several turbines in the Salto Grande power station. Work also considered on the dams at Alicurá and Agua del Toro, but the initiation of the highly important Yacyretá project was postponed and initiatives and studies for Paraná Medio, Corpus and other less important hydroelectric projects were slowed down. The Río III nuclear power programme was also delayed.

Electricity demand was reduced because of the lower level of activity and the increase in the relative prices of this type of energy. For social reasons, the electricity charges for low-income users were frozen towards the end of the year.

(c) *Developments in employment and unemployment*

The decline in economic activity, and especially the abrupt drop in the manufacturing and construction sectors, were naturally reflected in the deterioration in the employment situation. The average number of workers employed in the industrial sector went down by 12.6% in comparison with mid-1980, while in terms of the number of hours worked the decline was even greater (-16%). Thus, average employment in this sector in 1981 appears to have been 23% below that of 1970 and 35% less than that of 1975 (see table 10). The closing down of factories and the dismissal of workers created a delicate social situation which got worse towards the end of the year.

The reduction of employment was due in many firms not only to a drop in activity but also to some rationalization measures.

Although there are no organized statistics on the matter, partial data give ground for asserting that the drop in employment in the construction sector was even greater, especially in the last months of the year.

This decline in secondary sector employment was more severe than that which had taken place in the immediately preceding years, and unlike that period it was reflected in the overall unemployment rates, which more than doubled during the year from 2.0% in October 1980 to 4.9% in October 1981. This increase was also affected by the stagnation of employment in the sectors producing financial, personal and government services, which in previous years had largely absorbed the unemployment in the secondary sector. This labour situation also manifested itself in the form of underemployment and various forms of disguised unemployment not registered as such in social surveys.

3. The external sector

(a) *General evolution and financing of the balance-of-payments deficit*

In contrast with 1980, when the merchandise trade registered a deficit of close to US\$ 1 400 million, in 1981 it generated a surplus of over US\$ 900 million. This result would have seemed very doubtful in the first quarter, when there was a negative balance of around US\$ 600 million on the merchandise account, together with a net outflow of over US\$ 1 400 million in respect of services and another of close to US\$ 800 million in respect of movements of capital. This period was thus marked by a continuation of the trend observed throughout 1980, as a result of which the international reserves—which totalled US\$ 10 500 million at the beginning of that year, equivalent to one year's imports—had gone down by March 1981 to less than half, i.e., to US\$ 4 700 million.

The net outflow of capital in the first part of the year might appear to suggest a reduction in external indebtedness. The big outflows of short-term private funds, however, were partly offset by the inflow of credits to government bodies.

In view of the critical situation as regards the loss of reserves and the deterioration in the competitiveness of national production, those in charge of economic policy decided in February to

Table 10

ARGENTINA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1978		1979		1980		1981	
	April	October	April	October	April	October	April	October
Rates of unemployment								
Capital and greater	3.9	1.7	2.0	2.0	2.3	2.0	3.9	4.9
Buenos Aires								
Córdoba	5.1	2.7	2.6	1.8	2.1	2.7	2.9	4.6
Greater Mendoza	2.9	3.5	2.8	3.4	1.4	2.9	4.8	6.7
Rosario	5.5	2.3	3.1	2.7	4.3	2.4	4.1	5.1
Tucumán	6.8	4.9	5.9	4.9	6.2	6.4	7.3	9.2
	1975	1976	1977	1978	1979	1980	1981	
Indexes of employment (1970 = 100)								
Manufacturing	119.3	115.3	108.8	97.7	95.6	88.2	77.1	
Public sector (at 1 January)	116.2	119.6	120.5	115.0	114.2	12.3	...	

Source: National Institute of Statistics and Censuses and Ministry of the Economy.

change what had represented the main instrument of their anti-inflation policy: namely, the advance fixing of the exchange rate.

Thus, the Central Bank ordered a 10% devaluation in the peso *vis-à-vis* the dollar, while announcing at the same time that the advance rate of devaluation would be increased and extended to 31 August 1981.

In March 1981 there was a change in the economic team, coinciding with the replacement of the government authorities. The new Cabinet took measures aimed at reversing the deficit situation of the balance of payments, mainly through an additional 30% devaluation on top of that ordered in February, compensated by an increase in duties on exports of agricultural products.

This decision was not taken by the economic agents as being final, however, as it was considered insufficient in the light of the accumulated overvaluation of the peso and the growth rate of prices expected in view of the money issue anticipated through the fiscal deficit and the creation of money for the financial support of enterprises and banks. This situation gave rise to a continued demand for foreign exchange which impeded the rebuilding of the international reserves.

In view of this, on 1 June the Central Bank ordered a further 30% devaluation, without any compensatory mechanisms. At the same time, additional measures were taken aimed on the one hand at promoting exports of industrial goods and, on the other, at liberalizing payments of the short-term debt. As regards industrial goods, the financing terms were improved and the percentages of pre-financing were increased. As regards the capital market, the possibility was provided of taking out or renewing loans for 18 months with an exchange rate insurance, on terms which made the operation advantageous.

The measures taken had a rapid positive effect as regards the trade deficit. Thus, after a merchandise trade deficit of US\$ 625 million and a real services deficit of US\$ 680 million had been built up in the first three months of the year, the situation changed as from April, with successive positive results on the real services and merchandise balances up to the third quarter of the year.

In spite of this improvement, however, there was a continued sustained demand for foreign exchange for capital and financial services which neutralized the greater net exports of goods and services. The economic agents took this attitude because they expected difficulties in the control of inflation and the restructuring of the external debt profile.

In these circumstances, the authorities divided the exchange market at the end of June, introducing a controlled exchange rate for exports and imports and a regulated floating financial rate for services and capital movements. These measures were aimed at halting the drop in reserves and avoiding an excessively sharp impact on domestic prices. Nevertheless, the pressure on the exchange market was maintained and the authorities were obliged to resort to new devaluations.

The decisions taken in June were in contradiction of previous announcements on the planned evolution of the exchange rate and thus helped to strengthen expectations of further changes. Moreover, the uncertainty about the political future and perhaps also about the possibility of being able to cope with the payment of the external debt increased the demand for foreign exchange on the financial market. Thus, the gap between the two exchange rates was continually widening. This, in turn, encouraged the under-invoicing of exports and the over-invoicing of imports, while the impression persisted that the relative prices of internationally tradeable goods had not yet reached their final levels. The surpluses registered on the trade in goods therefore steadily diminished, until towards the end of the year there was once again a negative balance. Furthermore, the Central Bank had been trying to maintain the level of the financial exchange rate, which meant a growing loss of reserves and finally led, at the end of October, to the decision to stop supporting this market. In that month, the exchange rate was fluctuating around 10 000 pesos per dollar, with an accumulated devaluation since the beginning of the year of over 400%.

In view of the balance-of-payments difficulties, one of the biggest concerns of the authorities was to stimulate the inflow of capital. Various measures were taken during the year to this end,

especially the obligation (with certain exceptions) to pay for imports in a deferred manner and the establishment of exchange insurance, at a rate fixed by the Central Bank, for financial loans.

In December, there was another change in the government authorities and the exchange policy was substantially altered. Thus, the double market was eliminated and the exchange rate was unified at the level of the financial market, while the special arrangements for external loans with exchange insurance were suspended.

Over the year as a whole, the balance-of-payments current account registered a deficit of a little over US\$ 4 billion, i.e., 15% less than in 1980. This was the result of the surplus on merchandise trade already referred to, which was however more than offset by a real services deficit of almost US\$ 1 700 million and by net payments of financial services of US\$ 3 300 million (see table 11).

The net inflow of capital was close to US\$ 900 million: only about 40% of the 1980 figure and barely 20% of the exceptionally high figure registered in 1979. The evolution of capital movements was uneven over the course of the year. In the first quarter there was a net outflow of nearly US\$ 800 million, which was however totally offset by the inflows registered in the second quarter as a result of the changes in the direction of economic policy already referred to. After a slightly positive result in the third quarter, the net inflow of resources in the last part of the year came to about US\$ 700 million. The changes in the composition of the inflow of resources already registered in 1980 with respect to 1979 continued in 1981. Financial loans to the government and government enterprises came to US\$ 4 460 million, i.e., 58% more than in 1980, when they totalled US\$ 2 815 million, and 160% more than in 1979. In contrast with this, the movement of credits to the private sector showed a negative balance of close on US\$ 3 500 million, if capital transactions not otherwise identified in the balance-of-payments statistics are included under this heading. In 1980, the net outflow in this respect had been US\$ 55 million, and in 1979 there had been a net inflow of around US\$ 3 300 million. The results as regards movements of private sector funds in 1981 were influenced mainly by the heavy outflow of capital (US\$ 3 150 million) which took place in the first quarter of the year for the reasons already mentioned.

The international reserves, which had already gone down by close to US\$ 2 700 million in 1980, went down in 1981 by a further US\$ 3 500 million. The registered external debt, for its part, amounted in December 1981 to almost US\$ 35 700 million, compared with US\$ 27 200 million at the end of 1980 and US\$ 12 500 million in 1978. Thus, it has trebled in only the last three years, and moreover at the end of 1981 it had a very unfavourable maturity profile (see table 12).

(b) *External trade*

(i) *Exports.* In 1981 the value of exports totalled almost US\$ 9 150 million, representing an increase of 14% with respect to 1980. This increase was achieved exclusively through a larger volume of exports, as the unit value went down by a little over 2% (see table 13).

Exports of goods of agricultural origin most influenced the increase in the volume of shipments, with livestock and crop farming products registering increases of 18% and 21.5%, respectively. In contrast, the volume of exports of industrial products went down by a little over 2%. The drop in the prices of agricultural products was likewise a determining factor in the contraction of the average price of exports. The decline in the prices of stock-raising products (-13%) was particularly sharp, while in the case of crop farming products the drop in the prices of cereals was partly offset by the rise in oilseed prices.

By types of products, the most notable increase in physical volume was that of exports of cereals, which grew by 78%. Although their prices went down by 6.0% as a result of the exceptional harvests obtained by the main exporting countries, the value of cereals sales nevertheless rose by 68% to the record level of over US\$ 2 900 million (see table 14).

The performance of oilseeds was exactly the opposite, for while their prices rose, the volume of shipments went down for the second year running. This result was mainly due to the behaviour of soya bean sales, shipments of which abroad went down by around 500 000 tons, mainly because it was necessary to purchase larger quantities of soya beans for industrial processing for the domestic market.

Table 11
ARGENTINA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	4 632	6 602	7 515	9 222	9 952	10 888
Goods FOB	3 917	5 650	6 401	7 810	8 022	9 145
Services ^b	714	952	1 114	1 412	1 932	1 743
Transport and insurance	260	439	475	605	810	886
Travel	180	212	278	266	345	413
Imports of goods and services	3 510	4 766	5 048	8 869	13 219	11 639
Goods FOB	2 765	3 799	3 488	6 026	9 394	8 232
Services ^b	744	967	1 560	2 843	3 826	3 410
Transport and insurance	344	459	510	905	1 271	1 160
Travel	115	188	588	1 266	1 792	1 472
Merchandise balance	1 152	1 851	2 913	1 784	-1 373	913
Trade balance	1 122	1 836	2 467	353	-3 267	-751
Profits and interest	-489	-578	-679	-923	-1 531	-3 302
Profits	-24	-206	-274	-428	-585	-741
Interest received	50	128	315	681	1 229	876
Interest paid	-515	-500	-720	-1 175	-2 175	-3 435
Unrequited private transfer payments	24	33	48	35	23	-5
Balance on current account	657	1 290	1 836	-535	-4 774	-4 057
Unrequited official transfer payments	-6	-1	21	22	-	-
Long-term capital	847	415	1 520	3 156	4 492	9 538
Direct investment	-	84	273	265	788	917
Portfolio investment	-66	-	102	223	153	1 123
Other long-term capital	913	332	1 145	2 667	3 550	7 498
Official sector ^c	991	-203	-954	7	478	949
Loans received	1 236	99	47	50	510	1 022
Amortization payments	-172	-210	-914	-43	-36	-47
Commercial banks ^c	41	63	101	198	-65	136
Loans received	41	66	124	236	89	171
Amortization payments	-	-3	-22	-37	-155	-36
Others sectors ^c	-119	472	1 997	2 470	3 138	6 413
Loans received	540	1 047	3 745	3 157	4 231	7 993
Amortization payments	-543	-575	-1 588	-857	-1 229	-886
Basic balance	1 498	1 705	3 376	2 643	-283	5 482
Short-term capital	-357	109	-1 246	1 341	-2 011	-8 434
Official sector	-295	-399	335	180	313	299
Commercial banks	-16	20	-27	-286	-365	25
Others sectors	-46	488	-1 554	1 447	-1 958	-8 758
Errors and omissions	-220	37	9	243	-307	-245
Balance on capital account	261	556	302	4 760	2 176	864
Global balance^d	918	1 846	2 138	4 225	-2 598	-3 193
Total variation in reserves ^d (minus sign indicates an increase)	-919	-1 827	-2 236	-4 424	2 666	3 452
Monetary gold	-	-7	-4	-3	-1	-
Special Drawing Rights	-50	1	-121	-116	-1	-76
IMF reserve position	-	-	-169	-34	-133	57
Foreign exchange assets	-1 107	-1 710	-1 522	-4 272	2 801	3 471
Other assets	-	-	-	-	-	-
Use made of IMF credit	237	-111	-419	-	-	-

Fuente: 1976-1980: International Monetary Fund, Balance of Payments Yearbook; 1981: ECLA, on the basis of official data.

^aPreliminary figures.

^bServices also include other official and private transactions, but not profits and interest.

^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

The main destination of grain sales continued to be the Soviet Union, which absorbed approximately 83% of the total exports of cereals and 32% of sales of oilseeds (soya beans). The lifting of the cereals embargo imposed by the United States on the Soviet Union did not affect Argentina's shipments to this market, which, as already noted, were extremely high.

As regards meat exports, the drop in international prices cancelled out the increase in the volume exported, and the final result was a drop in the value of sales. In the particular case of beef, exports amounted to rather more than 280 000 tons, worth US\$ 740 million. In this case, not only was there a drop in prices but also stagnation of the volume exported because of the greater barriers to trade imposed by the European Economic Community (EEC). As a result of this trade policy of the European countries, efforts were intensified to diversify the markets for prepared meat products, and important agreements were signed with the Soviet Union and Egypt.

Table 12

ARGENTINA: EXTERNAL DEBT^a

(Millions of dollars)

	1978	1979	1980	1981
Total	12 496	19 034	27 162	35 671
Public	8 357	9 960	14 459	20 024
Private	4 139	9 074	12 703	15 647
External debt/Exports of goods and services	1.66	2.06	2.73	3.28
Percentage of debt falling due within the next two years	53.1	56.4	60.4	58.2

Source: Central Bank of Argentina.

^aAmount registered as capital and outstanding at 31 December of each year.

Table 13

ARGENTINA: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods						
Value	32.3	44.2	13.3	22.0	2.7	14.0
Volume	43.0	40.6	9.5	-1.2	-12.6	16.9
Unit value	-7.5	2.6	3.5	23.6	17.5	-2.4
Imports of goods						
Value	-21.2	37.4	-8.2	72.7	55.9	-12.4
Volume	-24.5	30.0	-18.0	40.8	55.2	-14.8
Unit value	4.3	5.7	12.0	22.7	0.5	2.9
Terms of trade (goods)	-11.7	-2.9	-7.4	1.5	16.1	-5.4
Indexes (1970 = 100)						
Terms of trade (goods)	88.9	86.3	79.9	81.1	94.2	89.1
Purchasing power of exports of goods	105.8	143.2	153.3	160.9	155.2	168.2
Purchasing power of exports of goods and services	104.7	140.0	150.6	159.0	161.1	167.6

Source: ECLA, on the basis of official data.

^aPreliminary figures.

Table 14

ARGENTINA: VALUE AND COMPOSITION OF EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total	6 414	7 810	8 021	9 144	100.0	100.0	21.8	2.7	14.0
Agricultural products	4 792	6 058	5 891	6 819	84.2	74.6	26.4	-2.8	15.8
Livestock products	1 520	2 087	1 752	1 800	35.5	19.7	37.3	-16.1	2.7
Meat	798	1 229	969	932	23.9	10.2	54.0	-21.2	-3.8
Wool, animal hair and horsehair	252	239	286	338	4.1	3.7	-5.2	19.7	18.2
Hides and skins	278	462	363	388	4.0	4.2	66.2	-21.4	6.9
Others livestock products	192	157	134	142	3.5	1.6	-18.2	-14.6	6.0
Crop-raising products	3 123	3 769	3 998	4 882	48.4	53.4	20.7	6.1	22.1
Cereals	1 337	1 735	1 742	2 920	33.2	31.9	29.8	0.4	67.6
Oilseeds	1 070	1 407	1 329	1 160	8.1	12.7	31.5	-5.5	-12.7
Other crop-raising products	716	627	927	802	7.1	8.8	-12.4	47.8	-13.5
Fishery products	149	202	141	137	0.3	1.5	35.6	-30.2	-2.8
Industrial products	1 622	1 752	2 130	2 325	15.8	25.4	8.0	21.6	9.2
Fuels	53	50	280	618	0.5	6.8	-5.7	460.0	120.7
Other industrial products	1 569	1 702	1 850	1 707	15.3	18.6	8.5	8.7	-7.7

Source: ECLA, on the basis of official data.

^a Preliminary figures.

As regards other livestock products, particularly wool and hides, their marketing displayed the same characteristics as in the case of meat and cereals, that is to say, increases in volume (21% and 20%, respectively) and declines in prices (-2% and -11%, respectively).

With regard to non-traditional industrial products, their contribution to the total value of exports remained within the average of recent years (25%), amounting to US\$ 2 320 million. This was due to the larger exports of fuels, since the value of sales of the remaining products went down (see table 14). The evolution of the volume of exports of these goods during the year may be divided into two subperiods. In the first half of the year there was a contraction due to the lack of exchange incentives (see table 15). From then on, however, as a result of the exchange and financial measures referred to earlier, which led to an increase in the real exchange rate for exports of these goods, shipments increased so that finally, taking the year as a whole, they were only slightly below those of 1980. It may be noted that in addition to the effect of the devaluation there was a reduction in domestic demand which freed goods for export.

Exports of fuels registered a considerable increase, and in constant values they were double those of 1980. The increase is even more striking when compared with 1979, as in this case the increase in volume was over 500%. Outstanding in this category were sales of gas oil and fuel oil, the exportable surpluses of which increased as a result of the contraction in domestic demand and, in the particular case of fuel oil, its substitution by gas in industrial use.

As regards the remaining industrial products, there was a drop in the volume exported, except in the case of textiles, rubber products and metals, the decline being particularly large in the case of food products (-35%) and machinery (-17%).

(ii) *Imports.* After the noteworthy growth observed between the years 1978 and 1980, when the current value of imports increased at an annual accumulated rate of 66%, purchases from abroad went down by rather more than 12% in 1981. This drop was due exclusively to the sharp decline in volume (-15%), since the prices increased on average by approximately 3% (see table 13).

The reduction in the volume of imports was largely due to the changes in the exchange rate already referred to, but it was also influenced by the drop in the level of activity and the large stocks of imported goods accumulated up to the second half of 1981 as a result of the overvaluation of the peso.

The decline was particularly marked in the case of capital goods and consumer goods. At current values, imports of investment goods fell by 25%, while those of consumer goods went down by practically 50%. In contrast, the value of imports of intermediate goods increased by 8% (see table 16). This behaviour by the different types of imports has been characteristic of periods of recession, when imports of capital goods and consumer goods have usually gone down earlier than those of intermediate goods.

For the year as a whole, raw materials and other intermediate goods accounted for almost 60% of the total value of imports (a considerably higher proportion than in 1980), while 20% corresponded to capital goods, 11% to fuels and lubricants and the remaining 10% to consumer goods.

(iii) *The terms of trade and the purchasing power of exports.* The increase in the physical volume of exports in 1981 more than made up for the deterioration of rather more than 5% suffered by the terms of trade, so that the purchasing power of exports improved by 8% with respect to 1980, rising to a level 68% above that of 1970 and higher than any value recorded since then (see table 13).

This result was due mainly to the significant increase in the volume of exports of agricultural products, particularly cereals, as already noted. The behaviour of the prices of these products, however, had a decisive influence on the decline in the average price of exports and consequently the deterioration in the terms of trade, particularly after the middle of the year.

Table 15

ARGENTINA: EVOLUTION OF THE EXCHANGE RATE AND PRICES^{a,b}

	Exchange rate		Index of trade prices in dollars		Index of trade prices in pesos		Index of unit prices (wholesale non-agricultural goods) (7)	Relative prices	
	Pesos per dollar	Index	Exports	Imports	Exports (2)×(3)	Exports (2)×(4)		Ex-ported goods (5)/(7)	Im-ported goods (6)/(7)
	(1)	(2)	(3)	(4)	(5)	(6)		(8)	(9)
1977	410	44	89	80	39	35	30	130	117
1978	799	85	92	99	78	84	75	104	112
1979	1 320	141	116	122	164	172	187	88	92
1980	1 841	196	137	127	269	249	337	80	74
I	1 689	180	141	124	254	223	275	92	81
II	1 807	193	130	128	251	247	314	80	79
III	1 901	203	129	131	262	266	353	74	75
IV	1 967	210	150	126	315	265	405	78	65
1981	4 411	472	136	136	642	642	723	89	89
I	2 201	235	152	132	357	310	452	79	69
II	3 572	382	136	135	520	516	596	87	87
III	5 134	549	128	138	703	758	821	86	92
IV	6 737	720	131	140	943	1 008	1 024	92	98

Fuente: ECLA, on the basis of official data.

^a All the indexes have as their base fourth quarter of 1978 = 100.

^b Excluding adjustments for taxes, purchases, reimbursements or other forms of subsidies.

Table 16

ARGENTINA: VALUE AND COMPOSITION OF IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total	3 834	6 700	10 546	9 251	100.0	100.0	74.8	57.4	-12.3
Capital goods	1 096	1 568	2 392	1 800	22.6	19.5	43.1	52.6	-24.7
Fuels and lubricants	482	1 118	1 177	980	6.7	10.6	131.9	5.3	-16.7
Intermediate goods	2 044	3 314	5 120	5 521	67.0	59.6	62.1	54.5	7.8
Chemical products	593	1 041	1 223	1 279	13.7	13.8	75.5	17.5	4.6
Paper and pulp	156	197	305	318	5.0	3.4	26.3	54.8	4.3
Metals and metal products, electrical equipment and parts and components for machinery and transport equipment	863	1 231	2 308	2 361	31.8	25.5	42.6	87.5	2.3
Other intermediate goods	432	845	1 284	1 563	16.5	16.9	95.6	52.0	21.7
Consumer goods	212	700	1 857	950	3.7	10.3	230.2	165.3	-48.8

Source: Central Bank of Argentina.

^aPreliminary figures.

4. Prices and wages

(a) Prices

Up to the February 1981 devaluation, the anti-inflation policy was based on a system of smaller and smaller increases in the exchange rate, so that the rate of increase would have sunk to 0% by March 1981. It was believed that with the establishment of a fixed parity with respect to the dollar, the increase in domestic prices would be equal to international inflation, once the period of adjustment was over. This policy did achieve some effect on the prices of internationally tradeable goods, which was reflected in the slackening of the growth rate of the wholesale price index from 100% in 1979 to 58% in 1980 (see table 17). Wages and the prices of goods without any direct relation with foreign trade, however, responded much less to this influence, as reflected in the cost of living index, which continued to rise at a rate of around 90% during 1980, compared with an increase in the price of foreign exchange of only about 20%. As already noted, this pronounced change in relative prices finally came to be incompatible with the maintenance of production activities in many economic sectors and with the external equilibrium of the economy.

In 1981, the policies applied were very different. The authorities concentrated on correcting the relative prices, making those of importable and exportable products more expensive through successive devaluations. This became one of the main causes of the greater growth of prices and changes in their structure. Thus, between the end of 1980 and the end of 1981 the prices of imported goods and agricultural products increased sharply (238% and 213%, respectively), clearly surpassing the variation in the prices of locally produced industrial goods (167%), the cost of living index (131%), and especially the services component of this index, which went up by only 109%, in spite of the fact that the tariffs of public enterprises were raised by 176%.

Although the authorities maintained the objective of containing inflation once the adjustments in the exchange rate (which it was accepted would produce upward pressures on prices) had had their effect, their efforts ran into serious difficulties. Because of the pressures which the economic policy had to bear as a result of the contraction of economic activity, the serious financial situation and the bigger fiscal deficit, it was not possible to present a programme capable of containing expectations and setting about the stabilization of prices.

No price control regulations were established —thus continuing with the system of free prices— except for medicines, whose prices were kept controlled. In order to stimulate sales, in the

last quarter of the year agreement was reached with the motor vehicle and agricultural machinery industries for the fixing of lower prices through the reduction of taxes.

At the end of the year, the new team responsible for economic policy proposed a different type of anti-inflation policy through the reduction of public expenditure (in particular, wages of government employees were frozen) and the announcement of stringent monetary restrictions.

(b) *Wages*

The real wages of industrial workers went down by a little under 20% in the course of 1981, so that the real average wage was 25% below the maximum annual figure registered in 1975 (see table 18). According to partial data, the deterioration seems to have been even greater in the smaller enterprises and the less skilled occupations, thus making the situation of workers in the lower part of the income distribution scale even more critical. This situation —typical of periods of devaluation and hence of increases in the prices of wage goods— became even more critical in 1981 because of the sharp economic contraction and the unemployment situation, which considerably weakened the negotiating power of wage-earners. As an element of costs, the share of wages in the value of industrial production, which had increased in 1980, by 17%, went down in 1981 by 10%.

The real wages of public employees suffered a deterioration of 6% between the fourth quarter of 1981 and the same period of 1980 as a result of the policy of containing public expenditure.

As in the case of prices, the authorities did not take direct action to fix wages, except through adjustments in the minimum and agreed basic wages, which in general only had limited effects on the wages actually paid.

Table 17
ARGENTINA: EVOLUTION OF DOMESTIC PRICES

	1977	1978	1979	1980	1981 ^a
Variations from December to December					
Consumer prices	160.4	169.8	139.7	87.6	131.3
Food and beverages	146.9	169.9	137.8	81.7	143.3
Clothing	129.3	154.3	121.0	54.8	104.8
Housing, fuel and electricity	339.6	165.1	133.0	109.0	111.8
Wholesale prices	147.1	143.3	128.9	57.5	180.2
Imported products	127.5	65.5	105.7	59.6	237.5
Domestic products	148.8	149.4	130.1	57.6	177.4
Agricultural	130.5	155.7	115.8	37.0	212.3
Manufactures	156.9	146.8	135.9	65.4	166.6
Variations between annual averages					
Consumer prices	176.0	175.5	159.5	100.8	104.5
Food and beverages	187.1	163.5	168.7	95.1	99.1
Clothing	109.5	147.8	150.0	69.1	81.4
Housing, fuels and electricity	447.1	186.5	151.0	104.6	111.1
Wholesale prices	149.4	146.0	149.3	75.4	109.6
Imported products	126.2	75.9	93.0	74.5	157.6
Domestic products	151.7	152.1	152.7	75.5	107.3
Agricultural	163.6	141.6	150.8	63.0	93.9
Manufactures	146.9	156.6	153.5	80.4	112.2

Source: National Institute of Statistics and Censuses.

^aPreliminary figures.

Table 18

ARGENTINA: EVOLUTION OF WAGES AND SALARIES

	1976	1977	1978	1979	1980	1981
Average real wage of an industrial worker						
Variation between annual averages	-32.7	-1.5	-1.8	14.9	11.8	-10.6
Variation between extremes	-37.1	7.4	3.5	22.5	6.5	-18.7
Average real salary of a public employee						
Variation between annual averages	...	...	5.2	4.1	17.7	-0.8
Variation between extremes	...	...	22.1	15.4	10.2	-6.0

Source: ECLA, on the basis of official data.

5. Monetary and fiscal policy

(a) *Monetary policy*

The rate of creation of money by the Central Bank accelerated sharply in 1981, when there was an increase of 120% in the monetary base (65% in 1980). The drop in external assets, especially in the first quarter, was an important factor of contraction. It was offset, however, by the expansion in financing provided to the official sector (which grew by 226%) and in advances to the financial system (170%). The monetary regulation account—which reflects the payments of compensation to financial institutions for the compulsory reserves in respect of interest-bearing deposits and the deposits which the institutions have to make in the Central Bank on their current account liabilities—was also a source of creation of money, although to a lesser extent. The increase in the rate of the compulsory reserves, which gradually rose from 10% in February to 18% in August, meant that the total amount of monetary resources (money plus quasi-money) grew proportionally less than the base (96%). Within that aggregate mass, the higher rate of inflation brought about the replacement of money (which expanded by 66%) by interest-bearing deposits, which increased by 110% (see table 19).

Towards the end of 1980, monetary policy was facing a serious dilemma. On the one hand, the continual decline in the relative prices of internationally tradeable goods and the lack of confidence in the maintenance of the exchange rate announced in advance stimulated the demand for foreign exchange. Under the prevailing exchange system, the drop in international reserves imposed severe limitations on the growth of domestic credit. At the same time, however, the domestic financial situation made it extremely difficult to adopt contractive measures. Many enterprises which had a high level of indebtedness and insufficient generation of funds were facing difficulties in meeting their commitments. The Central Bank was therefore obliged to advance substantial amounts of resources to the financial system, which was affected by the slow recovery of the loans it had made. In these circumstances, with credit restriction aimed at balancing external payments, there was a risk that interest rates would rise and that the problems of insolvency would get even worse. Furthermore, the increase in the fiscal deficit would, if not financed by the Central Bank, have forced the public sector to demand more loans, consequently displacing other applicants for credit.

In view of this situation, the authorities continued to expand domestic credit during the first quarter of 1981, against the background of a demand for real monetary balances (especially for means of payment, but also for interest-bearing deposits) which was going down because of the expectations of devaluation. Finally, the strong and persistent decline in the international reserves

and the lower level of activity of the sectors exposed to external competition forced an adjustment in the exchange rate. The devaluations which took place between February and June brought about a sharp fall in real liquidity but did not have the desired effect of restoring the Central Bank reserves.

Indeed, the difficulties of the financial system became even more serious. The interest rates on loans increased more than the yields on deposits, and there was an increase in the spread between the rates applied to different types of enterprises, reflecting the increase in the risk of insolvency. The rates charged by banks to prime borrowers were less than the growth rate of wholesale prices, but the credits given to other firms were at markedly positive real interest rates, so that the payments problems of many of these firms got worse. The Central Bank therefore had to make fresh advances to the financial institutions, and together with loans to the government this led to a persistent increase in the monetary base.

Even though the authorities tried to restrict the growth of the amount of money by increasing the compulsory reserves, conditions thus existed for continued expansion, and they were probably incorporated into the expectations of the public. Anticipation of an acceleration in price increases tended to reduce the demand for means of payment. At the same time, the uncertainty regarding future policy (especially towards the end of the year) and also, perhaps, the expectations of difficulties in the payment of the heavy servicing commitments in respect of the external debt, also helped to increase the pressure on the exchange market. Thus, although the exchange rate rose sharply, the monetary authorities had to intervene to avoid still greater depreciation.

As already noted, the volume of the debts of enterprises to the financial system and their slow rate of repayment were the subject of concern during 1981. In the middle of the year it was proposed to adopt measures for consolidating these debts and extending them for terms of up to 7

Table 19

ARGENTINA: MONETARY BALANCE

	End-year balance in thousands of billions of pesos				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Monetary base	7.0	13.3	21.9	48.1	89.2	64.5	119.5
External sector	3.6	8.7	1.4	-11.5	140.0	-83.4	
Internal sector	3.4	4.7	20.5	59.6	35.8	339.5	191.2
National government	1.7	1.6	10.6	34.7	-3.3	556.4	226.2
Financial institutions	0.4	0.8	11.1	30.1	87.6	316.7	170.1
Monetary regulation	1.7	2.9	1.3	4.6	76.3	-55.2	254.1
Other items	0.3	-0.6	-2.6	-9.8			
Monetary resources							
Money	5.6	13.8	27.4	45.5	145.5	97.8	66.2
Banknotes and coin	3.3	7.9	16.4	29.2	136.2	108.6	78.1
Current amount deposits	2.3	6.0	10.9	16.2	158.9	83.5	48.4
Factors of expansion	16.7	43.5	77.7	173.3	161.3	78.7	123.0
External sector	2.6	2.6	-8.9	-66.9	0.4		
Internal sector	14.0	40.9	86.6	240.2	191.5	112.0	177.4
National government	1.5	4.2	13.9	74.1	176.5	231.2	433.8
Private sector	10.8	33.8	71.5	161.4	212.3	111.9	125.7
Monetary regulation	1.7	2.9	1.2	4.7	72.0	-59.2	297.4
Factors of absorption	11.0	20.7	50.4	127.9	169.3	69.8	153.8
Quasi-money (savings and time deposits)	9.2	30.1	54.7	115.0	225.8	81.7	110.2
Other items (net)	1.8	-0.4	-4.3	12.9			

Source: Central Bank of Argentina.

^aPreliminary figures.

Table 20

ARGENTINA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Thousands of billions of pesos				Growth rates		
	1978	1979	1980	1981	1979	1980	1981
1. Current income	3.5	9.5	17.1	33.9	170.0	79.8	97.9
Tax revenue	2.8	6.8	15.3	29.3	145.7	123.9	92.2
Non-tax revenue	0.8	2.7	1.9	4.5	259.6	-31.3	144.5
2. Current expenditure	3.9	10.3	22.1	48.6	164.2	114.2	120.4
Wages and salaries	1.5	3.9	9.2	17.7	154.5	135.8	92.6
Non-personal goods and services	0.5	1.1	2.4	5.5	125.4	125.2	130.5
Interest	0.2	0.4	0.1	0.4	76.7	-85.7	564.5
Transfers	1.6	4.8	10.2	24.3	194.4	110.9	138.2
Other current expenditure	-	0.1	0.2	0.7	680.0	191.0	222.5
3. Current savings (1-2)	-0.4	-0.8	-4.9	-14.7			
4. Capital expenditure	0.6	1.6	2.9	11.1	156.7	87.1	282.2
Real investment	0.4	1.0	1.6	4.8	133.3	66.3	197.8
Loans (net of repayments)	0.2	0.6	1.3	6.3	209.1	122.1	388.7
5. Total expenditure (2 + 4)	4.5	11.9	25.0	59.7	163.2	110.6	139.3
6. Deficit (1 - 5)	1.0	2.3	7.8	25.9	138.7	236.2	229.4
7. Financing of deficit							
Central Bank	-	-	9.8	27.8	-	-	184.3
Unified Official Account Fund	0.4	1.0	1.6	1.6	118.6	59.2	0.6
Issue of securities	1.7	4.3	2.7	16.1	157.5	-37.9	501.0
Bond amortization payments	-1.0	-2.9	-5.7	-17.2	191.4	93.8	202.9
Others	-0.1	-0.1	-0.5	-2.3	-50.7	597.0	400.0

Source: National Treasury.

years. There was a long delay in the application of this system, however, and finally it was only applied in a very limited manner. Also, towards the end of the year the Central Bank proposed to exercise more direct control over interest rates by fixing a reference rate linked to the future exchange premium also fixed by the monetary authorities. These measures were only applied for a short time, as they were eliminated after the policy changes which took place in December.

(b) *Fiscal policy*

The central government's deficit increased once again in 1981 because of smaller income and higher expenditure (see table 20). The decline in economic activity reduced the real value of tax revenue, and this was not offset by larger income from other sources. On the expenditure side, staff outlays went down in real terms, although the purchasing power of public sector wages did not decline to the same extent as that of remunerations in the rest of the economy, as may be seen from table 18. In contrast, there was an increase in government purchases of goods and in transfers.

According to preliminary information, the consolidated public sector deficit (including provinces, municipalities and public enterprises) grew to the equivalent of about 6% of the gross domestic product, compared with 4% in 1980. The adjustments made in the tariffs of public enterprises succeeded in reducing their deficit, but this improvement was more than offset by the greater financing needs of the central and local governments.

The monetary financing of the central government was almost three times greater than in 1980, and as the net placements of securities were negative, the Central Bank loans actually covered a larger amount than the Treasury deficit.

BAHAMAS

1. Recent economic trends: Introduction and summary

Official GDP estimates have not been published since the preliminary estimates for the years 1973-1979¹ were calculated (see table 1). Indicators of economic activity for 1980 and 1981 are very incomplete both in scope and coverage, and as a result quantification of changes in the level of overall activity has not been possible. However, the indications are that there was real growth during 1980, while some growth also appears to have taken place during 1981 but at a significantly reduced rate. Increased activity in agriculture and capital inflows into construction made the main positive contributions during the latter year.

The agricultural GDP is estimated to have risen as a result of increases in the livestock subsector, particularly poultry production. Fisheries output appeared to have declined but fruit, vegetables and rootcrops at least maintained their combined level of output. Significant infrastructural changes were in progress during 1981 and the various programmes appear already to have made a positive impact on the sector. Available data suggest relatively small growth in the construction sector during the year, the main contribution being from the erection of new manufacturing and commercial structures (including hotels) and government construction activities.

Tourism, which is still the dominant sector in the Bahamian economy, declined after several years of increase. The growth rate of this sector had already been declining since 1979 with the general economic weakness in the economies of many industrialized countries. Tourism seems to be facing several problems but there is an obvious air of confidence that the situation will improve, as exemplified by the intensified promotion and hotel construction activities underway.

Data for recent years are scarce in respect of the productive sectors other than agriculture, but it appears that some subsectors such as building materials and quarrying have experienced difficulties. The petroleum refinery, an offshore company, continued to make positive contributions to the economy, but throughput appears to have declined in 1981 because of the reduced world market demand for petroleum products. Increases in manufacturing production are expected to be achieved during 1982 when establishments under construction during 1981 come on stream. Major institutional changes are in progress as part of a programme to further stimulate these sectors.

Double-digit price increases continued during 1981, and at 11% they were only one percentage point below the 1980 level. In the context of current world inflation, however, these levels must be considered as moderate. Contributing to lower prices was the relatively modest 5% increase in the money supply. Interest rates paid by banks for savings and time deposits have increased, apparently providing the stimulus for the growth observed in these deposits. Rates charged on loans rose at a slower pace, but loans and advances to private borrowers nevertheless did not increase much during 1981. Government transactions must also be considered somewhat anti-inflationary in 1981, as a surplus was generated. Government borrowing increased during the year, most of the loans coming from external sources, but even so the external debt as of September 1981 stood at only Bhs\$ 48 million² and was thus still quite small compared with the total national debt at the same date of Bhs\$ 285 million.

¹The estimates appearing in the *National Accounts Manual* published by the Department of Statistics of the Bahamas are considered to be very tentative, especially at the sectoral level, and as such should be considered as merely indicative and used with appropriate caution. A revision exercise is currently underway.

²The Bahamas dollar is at par with the U.S. dollar.

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators						
Gross domestic product at current factor cost (millions of Bahamas dollars ^b)	799	851	960	1 074	...	...
Population (thousands of inhabitants)	210	217	225	224	235	...
Per capita GDP (current Bahamas dollars)	3 805	3 922	4 267	4 795	...	...
Growth rates						
B. Short-run economic indicators						
Gross domestic product at current prices	8.9	6.5	12.8	11.8	...	...
Per capita GDP at current prices	3.7	3.1	8.8	12.3	...	...
Current value of exports of goods and services	16.0	2.6	17.1	12.9	23.5	-0.1
Current value of imports of goods and services	10.1	5.1	19.2	20.2	31.7	2.2
Consumer price index ^c						
December-December	3.2	4.6	6.6	11.6	12.1	8.3
Variation between annual averages	3.6	3.1	6.2	9.1	12.1	11.1
Money	5.2	10.3	15.3	27.3	5.6	4.8 ^e
Current income of government	12.7	3.8	18.6	23.2	20.8	18.2 ^e
Fiscal deficit/total expenditure of government ^d	14.2	18.1	17.7	3.9	3.2	11.5 ^f
Millions of US dollars						
C. External sector						
Trade balance (goods and services)	157	148	162	135	102	78
Balance on current account	63	54	26	-7	-32	-75
Variation in net international reserves (- sing indicates an increase)	6	-20	9	-19	-14	-8
Total international reserves (minus gold)	47.4	67.1	58.1	77.5	92.1	99.8

Source: IMF, International Financial Statistics, February 1982, and official data supplied to CEPAL.

^aPreliminary figures

^bBh\$ 1.00 = US\$ 1.00

^cNew Providence island only

^dPercentage.

^eJanuary-September 1981 with respect to the same period in 1980.

^fJanuary-September 1981.

The external sector is predominant in the Bahamas. Over the last five years a balance-of-payments surplus, though small, has been achieved in all except 1976 and 1978, since the large merchandise trade deficits have been offset by large net inflows from tourism and, in some years, from foreign capital transactions. The year 1981 was no exception, the only special features being a large surge in foreign private capital inflows and a small, though much larger than usual, increase in net official inflows. At the end of the year international reserves totalled approximately Bh\$ 100 million.

No new lines of policy were initiated during 1981 and efforts were concentrated on execution of programmes previously outlined. Government programmes were directed towards the strengthening and diversification of the economy, the acceleration of economic growth and provision for the material needs of all the people. Emphasis continues to be placed on tourism, agriculture, construction, manufacturing and petroleum exploration.

2. Trends in economic activity

(a) *Growth of the main sectors*

(i) *Agriculture.* Sectoral GDP data are not available after 1978, in which year the contribution of agriculture was estimated on a preliminary basis at Bhs\$ 42 million in current prices, or just over 4% of total GDP.

Preliminary information up to 1980 suggests that the share of agriculture may have increased since 1978. The performance in 1981, to judge from the available indicators, seems to have been mixed. There appears to have been an increase in the sectoral GDP in terms of current values, but this resulted mainly from price increases and there was little growth in real terms.

The fisheries subsector continued to be the most prominent during 1981 but its contribution in real terms may have been slightly lower than in 1980, since one of the major indicators—the value of total landings of marine products at Nassau (the capital)—declined by about 3% in terms of volume (see table 2). The volume of the high-priced crawfish was affected most, but this was partly compensated by price increases of all fish and increases in volume of landings of some varieties. No data are available for exports of fish, not all of which are landed at Nassau.

Table 2

BAHAMAS: VOLUME OF MARINE PRODUCT LANDED

	Metric tons				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Crawfish	504	547	493	273	12.0	8.5	-9.9	-44.6
Conch	170	224	262	353	-28.9	31.8	17.0	34.7
Turtle	42	20	23	19	27.3	-52.4	15.0	17.4
Other	963	865	1 289	1 367	10.2	-10.2	49.0	6.1
Total	1 679	1 656	2 067	2 012	5.2	-1.4	24.8	2.7

Source: Data supplied to CEPAL.

^aPreliminary figures.

The livestock subsector, the second largest in agriculture, appears to have improved slightly in real terms compared with 1980 and to have offset somewhat the lower output of fishing. This resulted mainly from increases in cattle slaughtering and poultry production (see table 3) although it is reported that the poultry industry, despite its better performance than the year before, was affected by dumping of United States poultry products on the local market.

The fruit and vegetables and forestry subsectors are relatively small, together accounting for less than 10% of the sector. Indicators are not available for forestry for recent years, but there are some indications that production of fruit and vegetables may have been higher in 1981 than in 1980.

The agricultural sector continued to be beset by problems of production and marketing during the period under review. In a drive to solve these problems the Government has embarked on a programme to establish a Bhs\$ 125 million industry in 10 years. The objective is to increase foreign exchange earnings from agriculture, provide significant employment and develop links between agriculture and industry. One of the major initiatives is the establishment of the Agricultural and Industrial Corporation. Through this corporation increased credit is to be made available, and the Government is prepared to participate in joint-venture arrangements with private companies to establish large-scale farming enterprises.

A number of agricultural projects have been prepared and implementation of some has already begun. Among these projects are construction of a modern fishing complex, upgrading of

Table 3

BAHAMAS: ESTIMATED VALUE OF FARM PRODUCTION

	Millions of Bahamas dollars				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Fruit and vegetables	5.66	3.30	3.87	...	-41.7	17.3	...
Dairy products	2.54	0.43	0.47	0.55	-83.1	9.3	17.0
Meat (beef and mutton)	0.37	0.55	0.52	0.72	48.7	-5.5	38.5
Poultry products	10.14	13.24	15.38	19.62	30.6	16.2	27.6
Total	18.71	17.52	20.24	...	-6.4	15.5	...

Source: Data supplied to CEPAL.

^aPreliminary figures.

the government abattoir, construction of a new wholesale produce exchange and the establishment of a sheep project, designed to provide improved technology and expertise to enable the traditional sheep-farming areas to increase production. The Government also plans to re-acquire lands that had been leased for farming but which are not being effectively used.

During 1981 an improved produce marketing system was introduced and it appears that more fruit, vegetables and rootcrops entered the produce exchange. Better transportation facilities—larger and faster ships and increased refrigerated cargo space—have also made a contribution. Work on the fishery complex has begun and should be completed by the end of 1982. This modern facility is expected to contribute significantly to exploiting the rich fishing areas in the archipelago.

Preliminary figures indicate that government expenditure on agriculture increased by 8% in the period January to September 1981, compared with the corresponding period of the previous year. Outstanding loans and advances to the agricultural sector by commercial banks at the end of September 1981 still came to a relatively small total, but this was more than double the amount outstanding at the end of the same period in 1980.

(ii) *Tourism.* The tourist industry continued to be the main contributor to the Bahamian economy during 1981 despite the decline in total visitor arrivals and expenditure. Visitor arrivals have increased every year since 1978 and peaked in 1980 when nearly 1.9 million visitors arrived (including 1.3 million "stopover" visitors). Comparison of definitive data for January to September 1981 with those for the corresponding period in 1980 shows that total tourist arrivals declined by 5%, while a decrease of 11% was recorded for "stopover" visitors (see table 4). Cruise-ship arrivals increased by nearly 10% up to September 1981, but the full-year increase is estimated to have been lower than in 1980. For the year as a whole the total number of visitors is estimated to have declined by more than 4%. However, tourist expenditure for the full year 1981 increased from the Bhs\$ 596 million of 1980 to Bhs\$ 639 million because of the increase in average length of stay and higher prices.

Major problems which have confronted the tourist industry and resulted in the decline on the number of visitors include: (i) the significant increase in vacation costs to non-United States visitors due to the recent steady appreciation of the US dollar; (ii) the air traffic controllers' strike in the United States, which resulted in a reported reduction of 25% in flights to the Bahamas; (iii) adverse criticisms in the local and overseas press regarding the Government's land and development policies, the hallucinogenic drug problem and the inconvenience caused by the frequent electricity blackouts during 1981; (iv) inflation and the slower pace of economic activity in the United States and other major markets; and (v) intense competition by other countries for the scarcer tourist dollar.

The Government has proposed the implementation of several measures in a strategy to revive the tourism industry, and a ten-year development plan for tourism has been prepared. A major objective of the strategy is to increase the domestic content of the sector. During 1980,

according to available data on expenditure, the government spent some Bhs\$ 20 million on monitoring, researching, servicing and promoting tourism. The figure for 1981 is estimated to be only slightly higher, but for 1982 planned expenditure of Bhs\$ 23 million was requested in the Government's budget plan. These figures indicate the continued confidence being placed in this sector in developmental activities.

To this end, promotion of tourism is being intensified and an additional allocation of Bhs\$ 3 million has been provided for this purpose in the 1982 budget. Scheduled and charter airline services from the United States and Europe are to be increased and additional cruise lines induced to stop in the Bahamas. New resort developments and major infrastructural improvements are being carried out by private investors and the Government, and at the end of 1981 some 1 700 new hotel rooms were either under construction or at a very advanced stage of planning.

(iii) *Construction.* Available indicators point to very slight growth in this sector during 1981. As noted elsewhere, hotel construction increased and Government construction appeared to have given the major boost during the year. However, part-year data on building construction appear inconclusive and loans and advances to the construction sector show declines.

With respect to building construction, the value of building starts and completions increased during the first half of the year compared with the same period of 1980. The value of commercial building starts (mainly hotels) increased significantly and offset the 21% decline in residential building starts (see table 5). The decline in the number of building permits issued, in commercial building starts and in the number of completions, contrasting with the large value of commercial buildings in progress, reflects the large-scale projects underway. These projects include a 750 room

Table 4

BAHAMAS: SELECTED TOURISM INDICATORS

	1978	1979	1980	1981 ^{ab}	Growth rates		
					1979	1980	1981 ^c
Total number of visitors ^{de}	1 627	1 711	1 872	1 371	5.2	9.4	-4.9
Stopover visitors	1 177	1 235	1 295	900	4.9	4.9	-11.1
Cruise-ship visitors	450	476	577	471	5.8	21.2	9.8
Average length of stay of stopover visitors ^f	7	7	7	7	-	1.4	1.4
Total expenditure ^g	495	562	596	...	13.5	6.0	...
Stopover visitors ^g	472	537	564	...	13.6	5.0	...
Expenditure per day ^h	58	63	63	...	8.5	0.5	...
Expenditure per visit ^h	402	435	435	...	8.2	0.1	...
Cruise-ship visitors ^g	23	25	32	...	10.2	28.2	...
Expenditure per visit ^h	50	52	55	...	4.0	5.8	...
Hotel rooms available	11 175	11 411	11 427	...	2.1	0.1	...
Average hotel room occupancy rate ⁱ	76.9	83.0	75.4	...	7.9	-9.2	...

Source: Ministry of Tourism, Bahamas, *Annual Report on Tourism, 1979* and *Bahamas Tourism Statistics, September 1981*, and data supplied to CEPAL.

^aPreliminary figures.

^bJanuary-September.

^cJanuary-September 1981 with respect to same period in 1980.

^dThousands.

^eExcludes tourists in transit.

^fDays.

^gMillions of dollars.

^hCurrent dollars.

ⁱOccupancy rates for Grand Bahama in 1978 and 1979 were 65.4 and 62.5% and for the Family Islands 41.6 and 48.1%.

hotel in New Providence, a 200 room hotel in Freeport and a total of 100 hotel rooms in the "family islands", as well as two large chemical plants and several government educational facilities.

Despite the overall reduction in residential building starts, construction on government housing projects was very active during the year and work was begun on lower-income housing schemes, both to build new houses and to repair and upgrade housing and related facilities in certain poorer communities. Persons who could not meet the normal commercial loan eligibility criteria and terms of repayment are being assisted with loans, loan guarantees at more favourable rates of interest and other concessions. The Government also increased its expenditure on infrastructural construction activities, as reflected in the expenditure data for public works and water supply. The sum of current and capital expenditures in this category increased 33% in 1980 and 10% in 1981. The approved budget for public works and water supply in 1981 was Bhs\$ 24 million, out of which 58% represented capital expenditure. Up to September, 77% of the total had already been spent.

Data on loans and advances by commercial banks show declines for building construction and real estate in 1981, following increases in 1980, and reflect the situation as regards private building activity mentioned above. Mortgage interest rates increased on average by only about 0.25% points during the first three quarters of 1981. It is not clear whether this increase had much impact on the decisions of many private individuals to build.

(iv) *Mining and manufacturing.* Reliable GDP data are not available, but on the basis of the preliminary estimates for 1978 this sector appears to have accounted for less than 5% of total GDP. Indications are that the share of the sector has remained at about the same level in recent years.

Mining activity consists mainly of salt and aragonite production and the quarrying of construction materials. Manufacturing covers a wider range of goods, of which petroleum products are the most significant. The remaining activities are really light industries except for a small

Table 5
BAHAMAS: CONSTRUCTION INDICATORS

	1978	1979	1980 ^a	1981 ^{ab}	Growth rates			
					1978	1979	1980	1981 ^{ac}
Building permits issued								
Number	1 835	2 182	2 279	933	7.7	18.9	4.5	-17.4
Value ^d	65	118	230	54	3.2	81.5	94.9	-63.0
Building starts								
Number	953	1 107	1 121	569	26.1	16.2	1.3	-3.7
Value ^d	42	72	136	82	55.6	71.4	88.9	30.2
Residential building starts								
Number	765	900	913	484	27.5	17.6	1.4	0.2
Value ^d	29	56	55	23	45.0	93.1	-1.8	-20.7
Commercial and industrial building starts ^e								
Number	182	197	196	85	21.3	8.2	0.5	-21.3
Value ^d	13	15	80	60	85.7	15.4	433.3	76.5
Building completions								
Number	540	692	733	333	10.4	28.1	5.9	-2.1
Value ^d	21	34	39	18	10.5	61.9	14.7	5.9

Source: Central Bank of the Bahamas, *Quarterly Review*, September 1981, Vol. 8, No 3, December 1981.

^a Preliminary figures.

^b January-June.

^c January-June 1981 with respect to same period in 1980.

^d Millions of current dollars.

^e New Providence and Grand Bahama Islands only.

Table 6

BAHAMAS: OIL IMPORTS FOR LOCAL CONSUMPTION

(Thousands of barrels and million of dollars)

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^b
Total local consumption							
Volume	8 932	9 592	8 257	5 661	7.4	-13.9	-12.7
Value	129	178	299	201	38.0	67.7	-12.8
Total domestic consumption							
Volume	3 495	4 012	3 684	2 312	14.8	-8.2	17.4
Value	55	94	127	91	71.3	34.9	-3.1
Foreign bunkers							
Volume	5 437	5 580	4 573	3 349	2.6	-18.0	-9.2
Value	74	84	172	110	13.2	104.8	-19.4

Source: Central Bank of the Bahamas, Quarterly Review, September 1981, Vol. 8, No 3.

^aJanuary-September.^bJanuary-September 1981 with respect to same period in 1980.

volume of metal products and building materials (including cement). Important product groups are food and beverages and printing and publishing.

Volume of output in manufacturing, other than petroleum, appears to have increased slightly in 1981. The increased fixed capital formation recorded during the year which includes two chemical plants, should result in higher manufacturing output during 1982. Prospects for the near future include a brewery and factories manufacturing PVC pipes, clothing, leather, jewellery and plastics. These new enterprises were registered under the New Industries Encouragement Act of 1981. Further encouragement to industry is expected from the merging of the Bahamas Development Corporation and the Bahamas Agricultural Corporation. The "new" corporation will promote the establishment of industrial and agricultural enterprises. In addition, a private sector initiative has been launched in the form of a development foundation to assist in setting up small-scale manufacturing establishments.

(v) *Energy.* Data are not available on petroleum refining. This is essentially an off-shore operation which, however, is required by law to meet domestic consumption requirements. Indications are that refinery throughput declined in 1981. Oil imports (petroleum products for local consumption and for foreign bunkers) declined in 1980 in terms of volume while prices increased substantially.

Data for the period January-September 1981 as compared with the same period of the year before show that the value of petroleum products imported for local consumption declined by 13% to Bhs 201 million owing to a decrease in volume. This decline is consistent with the slowing-down of economic growth during 1981 and the higher energy conservation consciousness (see table 6).

Domestic prices of petroleum products remained relatively stable, reflecting more moderate international price increases during 1981. Local production of LPG reportedly decreased during the year and some imports were necessary to meet local demand. Despite the moderate price increases and the decrease in volume, oil imports for local consumption accounted for an estimated 35% of total imports (see table 7).

As a result of the heavy burden that petroleum imports represent, the Government has embarked on a programme of oil exploration which is gaining momentum. Some traces of oil and gas had been found in the past, and activities were accelerated in 1981. At least two major oil companies are involved in preliminary exploration, and permits to conduct seismic surveys have been issued. Some 8 500 line kilometres were under seismic survey during 1981. Several proposals

were placed before the Government during the year, and it is anticipated that exploration will increase during 1982 as the second phase of activity —the granting of exploration licences to companies which satisfy government requirements— gets underway.

On the institutional side a small unit in the Ministry of Economic Affairs, with the aid of consultants, is responsible for monitoring, and regulating the petroleum exploration activities. It is expected that soon the Bahamas will accede to the San José Accord and thus be eligible to benefit from the Mexico/Venezuela Oil Facility.

Data on electricity generation for the entire Bahamas are available only up to 1979. Part-year preliminary data, covering New Providence only, show that up to the end of the third quarter of 1981 electricity generation was at a lower rate than in the year before, reflecting the slowing-down of the rate of growth of the economy (see table 8).

During 1981 a small energy unit was established in the Ministry of Works with responsibility for all areas of energy except petroleum (electricity generation and distribution were already in the

Table 7

BAHAMAS: RATIOS OF SELECTED AGGREGATES

	1975	1979	1980	1981 ^a
Petroleum imports ^b /total imports ^b	0.354	0.318	0.358	0.346
Petroleum imports ^b /domestic exports	1.114	1.034	1.491	1.466
Petroleum imports ^b /GDP	0.172	0.163	...	...
Total foreign currency debt/GDP	0.085	0.050	...	...
Total foreign currency debt/domestic exports	0.551	0.316	0.203	0.662
Petroleum imports and foreign currency debt/ domestic exports and net total receipts	0.505	0.345	0.476	0.594

Source: Calculated from official data.

^aJanuary-September.

^bExcludes petroleum imports not for local consumption.

Table 8

**BAHAMAS: INSTALLED CAPACITY AND PRODUCTION
OF ELECTRICITY^{a,b}**

	Public	Industrial	Total
	Installed capacity (thousands of kW)		
1977	248.2	49.6 ^c	297.8
1978	245.5	49.5	295.4
1979	260.2	49.9	310.1
1980	...	...	371.6
	Production (millions of kWh)		
1977	641.2	57.8 ^c	699.0
1978	692.6	94.9	787.5
1979	735.7	92.9	828.6
1980	...	...	...

Source: Ministry of Works and Utilities, **Annual Report** (several issues) and data supplied to CEPAL.

^aTotal and public production exclude some generation at government installations on Family Islands - 0.5 MW of capacity in 1978.

^bOnly thermal electricity is produced.

^cCement plant out of operation most of the year.

portfolio of this Ministry). Current and near-future initiatives include the utilization of photovoltaic cells for shallow-well pumping and in telecommunications; gasification of wood to generate electricity for water pumping; development of plastic solar water heaters; and the execution of energy audits and energy assessments.

3. The external sector

The Bahamas is an extremely open economy with great dependence on tourism and on "off-shore" companies operating mostly in the field of banking and finance but also in the goods-producing sector. The foreign dependency is also reflected in the relatively large imports and exports of merchandise. Gross receipts from tourism were 50% of estimated GDP in 1978. On the basis of crude estimates, this share apparently increased in 1980, but decreased in 1981. Imports (excluding the off-shore petroleum trade) accounted for roughly 50% of GDP in 1978 but appeared to have increased after that, while total exports (excluding the off-shore petroleum trade) accounted for only 15% of GDP in 1978 but seem to have increased their share since then. Obviously the coefficients are significantly higher when off-shore petroleum imports and exports are included. The earnings accruing to the domestic economy from these off-shore companies include wages, fees, licenses, local purchases, etc.

The balance of payments has shown a small surplus in every year except 1976 and 1978, but the surplus for 1981 is expected to be much lower than the Bhs 42 million provisional figure estimated at the end of the third quarter, reflecting the slowing down of economic activity.

As indicated above, merchandise trade dominates the external accounts. In the period under review, imports came to some Bhs 783 million and exports only to Bhs 176 million, resulting in a large deficit of some Bhs 600 million which represents an increase of almost 2% with respect to 1980 (see table 9).

This occurred because the goods-producing sectors did not increase activities to any great extent during the year, while exports have been declining. One major export company was phasing out activities as early as the first quarter of the year. On the other hand, while imports also declined slightly during the first nine months of 1981 compared with the same period in 1980, it is expected that fourth quarter imports, boosted by demand for construction materials for hotel and other building activity, will add significantly to the total import bill.

For 1981 a decline of 2% was recorded in the surplus on the services account (excluding payments of profits and interest). This was partly due to lower receipts from transportation and insurance. Net travel earnings, on the other hand, increased by 6% although total tourist arrivals declined. The current account deficit thus came to Bhs 75 million, which was the largest amount for the last three years.

Net capital transactions have been relatively small in recent years except in 1977, when there was a deficit of some Bhs 70 million under this heading. Since 1979, however, surpluses have been recorded, the positive balance for 1981 being Bhs 81 million. This was mainly because of a large inflow of long-term loans. Real estate transactions and loans comprise the bulk of private long-term capital transactions. There were some fears that the adoption of the Acquisition of Immovable Property Act would affect property sales to foreigners, but during most of 1981 the value of property sales compared favourably with sales in 1980. The capital account was strongly supported by short-term capital inflows to the Bahamas, which were fairly substantial during the first nine months of 1981. Government foreign borrowing had been low during the last five years, but as a result of the expansion of hotel facilities official loan receipts were higher during 1981. At the end of 1980 total reserves stood at Bhs 92 million and preliminary figures indicate a Bhs 8 million increase as of the end of 1981 to approximately Bhs 100 million.

Table 9

BAHAMAS: BALANCE OF PAYMENTS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	588	682	700	820	926	1 144	1 143
Goods FOB	117	149	136	146	170	201	176
Services ^b	471	533	564	674	755	943	966
Transport and insurance	92	93	80	96	107	204	184
Travel	314	363	407	489	552	595	639
Imports of goods and services	477	525	552	658	791	1 042	1 065
Goods FOB	341	388	387	465	590	797	783
Services ^b	136	137	165	194	201	246	282
Transport and insurance	40	38	46	59	74	76	83
Travel	46	44	54	61	53	71	84
Trade balance (goods)	-223	-239	-251	-318	-419	-596	-607
Trade balance (goods and services)	111	157	148	162	135	102	78
Net payments of profits and interest on foreign capital	-58	-77	-75	-114	-125	-114	-139
Profits	-	-	-	-	-	-	-
Interest	125	5	4	7	11	13	17
Net private transfer payments	-15	-17	-19	-22	-16	-20	-14
Balance on current account	38	63	54	26	-7	-32	-75
Net external financing:							
Long-term capital	38	7	39	-25	4	10	141
Direct investment	49	12	31	-1	10	4	34
Portfolio investment	-	-	-	-	-	-	-
Other long-term capital	-11	-5	8	-24	-5	6	107
Official sector ^c	-6	-5	8	-6	-8	-8	31
Loans received	-	-	13	1	1	-	38
Amortization payments	-6	-5	-5	-7	-8	-8	-7
Commercial banks ^c	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors	-6	-	-	-18	2	14	76
Loans received	12	14	21	11	24	52	100
Amortization payments	-17	-14	-22	-29	-21	-38	-24
Official transfer payments	5	5	5	7	12	18	11
Basic balance	81	75	99	8	9	-4	77
Short-term capital	-24	-13	10	1	-25	-3	-
Official sector	-	-	-	-	-	-	-
Commercial banks	-24	-13	-10	1	-25	-3	-
Other sectors	-	-	-	-	-	-	-
Errors and omissions (net)	-54	-68	-90	-18	31	17	-71
Balance on capital account	-35	-69	-35	-35	22	43	81
Global balance ^d	4	-6	20	-9	15	11	6
Variation in international reserves ^d							
(- sign indicates an increase)	-3	6	-20	9	-19	-14	-8
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-	-	-	-	-4	1	-4
IMF reserve position	-	-	-	-	-	-5	4
Foreign exchange assets	-4	6	-19	9	-15	-11	-8
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-	-	-	-	-	-	-

Source: CEPAL, on the basis of official information.

^a Preliminary figures.^b Services also include other official and private transactions but not profits and interest.^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^d Difference between global balance and variation in international reserves includes monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

4. Prices

The general price level, as measured by the annual averages of the Retail Price Index for new Providence Island, rose by 11% in 1981 (see table 10). Mainly responsible for this increase were higher prices of food, health and personal care, recreation and reading and miscellaneous goods and services.

The rate of inflation was somewhat lower in 1981, partly as the result of an abatement in the rate of increase in the price of petroleum and petroleum products. Evidence of this can be seen in the transport section of the index, where the rate of increase was only 6% in 1981 compared with nearly 12% the year before.

5. Monetary and fiscal policy

(a) *Monetary policy*

Full-year data are not available for 1981. In 1980, however, the money supply had grown relatively slowly, following periods of substantial growth between 1975 and 1979, when economic activity was more buoyant.

In 1980 money supply increased by 5.6% and for the year ending September 1981 the increase in the money supply was nearly 5% compared with 5.6% for the whole of 1980 (see table 11). Of the total narrow money supply (M_1) of approximately Bhs 150 million as of 30 September 1981, currency outside banks amounted to about 24%. In 1977 and 1978 this share was approximately 23% but in 1979 it had fallen. Since that time the rate of increase in currency outside banks has exceeded the rate of increase in demand deposits (excluding government deposits). Government deposits in the Central Bank and in commercial banks averaged Bhs 21 million monthly during the period January-September 1981.

In contrast, saving and time deposits together have grown more rapidly than the money supply (M_1) during the last two years, with time deposits increasing more than twice as fast as savings. However, even for time deposits the growth rate slowed during 1981. It would appear that holders of funds have been moving from more to less liquid types of bank deposits, no doubt stimulated by the higher rates of interest available on savings and fixed deposits after the end of

Table 10
BAHAMAS: EVOLUTION OF DOMESTIC PRICES^a

	1978	1979	1980	1981
Annual average variations				
Consumer price index	6.2	9.1	12.1	11.1
Food	8.2	10.9	15.1	14.8
Housing	3.1	6.5	9.5	8.1
Clothing and footwear	6.2	12.5	15.5	8.2
Health and personal care	6.1	7.6	9.2	10.6
December to december variations				
Consumer price index	6.6	11.6	12.1	8.3
Food	8.3	15.0	15.4	12.1
Housing	4.8	6.9	10.4	6.1
Clothing and footwear	8.5	16.8	12.1	5.1
Health and personal care	8.3	7.0	12.4	7.8

Source: Department of Statistics, Bahamas, Retail Price Index, and data supplied to CEPAL.

^aNew Providence Island contains some 60% of the total population and attracts more than half the total number of tourists.

Table 11

BAHAMAS: MONETARY BALANCE

	Millions of dollars				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^{ab}
Money	106	136	143	150	27.3	5.6	4.8
Currency outside banks	26	30	33	36	12.5	12.1	18.2
Demand deposits	80	106	110	114	32.3	3.8	1.2
Factors of expansion	363	432	512	545	18.9	18.7	7.2
Foreign assets (net)	-48	-14	3	49	71.8	...	154.7
Domestic credit	411	445	510	496	8.4	14.6	1.4
Government (net)	99	88	81	64	-11.5	-7.9	-28.0
Other financial institutions	2	4	6	6	77.3	48.7	14.6
Private sector	310	354	423	427	14.2	19.7	7.9
Factors of absorption	256	296	369	396	15.4	24.7	8.1
Quasi-money	216	238	291	325	10.3	22.1	13.4
Savings deposits	67	83	95	103	24.8	14.0	9.8
Time deposits	123	134	174	203	8.8	29.5	22.3
Deposits in foreign currency	22	17	18	12	-24.7	7.1	-23.7
Amounts due to other local financial institutions	4	5	5	7	12.5	6.7	16.1
Other items (net)	40	58	78	71	42.8	35.5	-10.9

Source: Central Bank of the Bahamas, *Quarterly Review*, September 1981, and data supplied to CEPAL.

^a As of September.

^b As of September 1981 with respect to September 1980.

1979. Between that date and September 1981 the interest rate paid on saving deposits increased by 2.5 percentage points while the interest rates on fixed deposits (varying by length of maturities) increased by at least 2.6 percentage points. Funds have also been moving rapidly into deposits in non-bank financial institutions, where interest rates traditionally are higher than in commercial banks. Between the end of 1980 and September 1981 these deposits increased from Bhs 4.8 million to Bhs 7.2 million—a rise of nearly 50%. Foreign currency demand deposits and other deposits (permitted under the Bahamas' liberal banking laws) were much lower in September 1981 than a year earlier, although since the balances have fluctuated almost monthly no definite trend is discernible. There was, however, a pronounced dip of 41% between August and September 1981.

It should be noted also that the spread between the rates paid on deposits and the rates charged to borrowers has narrowed. This would appear to be in line with the Central Bank's policy of keeping lending rates low enough to stimulate borrowing for domestic investment yet high enough to prevent funds moving outside to seek higher returns in the North American financial markets.

Loans and advances of commercial banks to the public as of end September 1981, at Bhs 420 million, were 8% higher than at the end of September 1980, but only 1% higher than at the end of 1980. More than Bhs 350 million were loans in Bahamas dollars, while foreign currency loans decreased from approximately Bhs 85 million to Bhs 67 million. This decline may be due to the Central Bank's policy of discouraging loans in foreign currencies while encouraging loans to finance domestic investment.

Of the total loans outstanding to the private sector, 47%, were in the personal and other local loans category. Trade and commerce accounted for the second highest share (approximately 18%). Increases were recorded in all categories of borrowers except tourism establishments, public utilities and in real estate and construction activities. Loans outstanding to the agricultural sector,

though still relatively small, increased considerably during the last year and indicate the growing confidence in agricultural investment.

Net government borrowing excluding contingent liabilities for the year ending September 1981 amounted to Bhs\$ 60 million. Government loans from local sources increased during the year by Bhs\$ 22 million and consisted mainly of foreign currency loans concentrated in the third quarter of 1981. As a result, the total internal national debt stood at Bhs\$ 237 million as of end September 1981. Loans from external sources increased by Bhs\$ 38 million, mostly during the third quarter of 1981, when the external debt outstanding increased sharply to Bhs\$ 48 million. These increases are the result of loans for financing hotel construction. The total direct national debt increased by 26% to Bhs\$ 285 million, but contingent liabilities of the Government increased only slightly during 1981. Government borrowing from the domestic monetary authorities can be considered as restrained, and to the extent that proceeds from foreign loans have been deposited in local commercial banks until they are needed it has tended to minimize pressure on liquidity in the financial system.

The level of required reserves in the banking system has been moving steadily upward as the money supply increased, but excess reserves have been declining since 1979 (almost coinciding with the contrasting trend in savings and time deposits), as the resources of the banking system have not grown rapidly. As of September 1981 the level of excess reserves adjusted for loans from the Central Bank, amounted to only just over Bhs\$ 6 million.

Table 12

BAHAMAS: CENTRAL GOVERNMENT INCOME AND REVENUE

	Millions of dollars				Growth rates		
	1978	1979	1980	1981 ^{ab}	1979	1980	1981 ^c
1. Current income	164	202	244	213	23.2	20.8	18.2
Tax revenue	140	176	201	151	25.5	14.5	4.4
Imports	97	119	140	102	22.9	17.6	3.3
Services	11	16	16	14	45.9	1.3	-6.2
Stamps	11	14	16	12	26.5	10.5	5.2
Others	21	26	29	23	26.3	10.6	17.0
Non-tax revenue	24	27	43	62	10.0	65.4	74.3
2. Current expenditure	158	179	208	169	13.5	16.4	13.9
Wages and salaries	91	99	115	90	8.3	16.0	8.3
Goods and services	38	48	57	52	25.3	19.4	29.7
Transfer payments and subsidies	28	32	36	27	13.9	13.2	7.1
3. Savings on current account (1 - 2)	6	23	33	45	264.1	54.5	38.2
4. Capital expenditure	28	26	39	23	-7.1	47.5	16.8
Capital formation	11	15	23	16	40.0	47.4	102.5
Acquisition of assets	12	-	-	-	-	-	-
Others	5	11	16	7	98.2	47.7	-43.1
5. Total expenditure (2 + 4)	186	205	247	192	10.3	20.4	14.2
Net lending	11	5	5	44	-53.2	-3.8	680.4
Fiscal deficit	-33	-8	-8	-22	-75.2	-4.9	221.7
Total national debt	233	275	292	323	17.9	6.4	22.7

Source: Central Bank of the Bahamas, *Quarterly Review*, September 1981, Vol. 8 No 3, December 1981, and data supplied to CEPAL.

^a Preliminary figures.

^b January-September.

^c January-September 1981 with respect to the same period in 1980.

(b) *Fiscal policy.*

In 1980 total central government revenue amounted to Bh\$ 244 million and total expenditure to Bh\$ 247 million (see table 12). By the end of September 1981 recurrent revenue, at Bh\$ 213 million, exceeded the figure for the corresponding period of the previous year by some 18%. Tax revenue collected by that date increased by more than 4%, while non-tax revenue increased by 74% compared with the same period the year before. Total expenditures increased by 14% to Bh\$ 192 million, comparing the figures for the first three quarters of 1980 and 1981, and the surplus was higher at the end of September 1981.

The significant increase in non-tax revenue was due largely to payments made by the petroleum refinery and petroleum transshipment companies and to the transfer of profits of the Central Bank as required by law. The greater part of tax revenue (about 70% during 1980, or roughly the same share as in recent years) was derived from import duties. Wages continue to account for the largest share of the Government's recurrent expenditure (about 55% in 1980) but the share is declining. On the other hand, expenditure on goods and services has been increasing very rapidly. Capital expenditure averaged more than Bh\$ 33 million during the three years up to 1980 and was probably higher for the full year 1981.

BARBADOS

1. Recent economic trends: Introduction and summary

In 1981 the economy of Barbados experienced a decline in real terms of the order of 2.6%, ending five successive years of real growth. Per capita GDP at factor cost, in current prices, was B\$ 6 586,¹ an increase of 12% over the adjusted figure of B\$ 5 868 for 1980 (see table 1). The decline in real production was concentrated almost entirely in the major export sectors—sugar, tourism and manufacturing—whose strong performance had been the driving force behind the expansion of the economy in recent years and all of which recorded significant drops in output during the year.

Tourist arrivals fell by 5%. The decline was sharpest in the North American markets, with arrivals from the United States and Canada falling by 13% and 18%, respectively. Only the strong performance of the United Kingdom market, which recorded an increase of over 28%, and to a lesser extent the 1.5% growth in arrivals from CARICOM countries, saved the industry from disaster.

Manufacturing output was estimated to have declined by 3%, after six years of growth averaging 7.8% per year. Sugar production fell by 30% to 94 000 tons—the lowest level of output since 1948—in contrast with the increase of over 16% recorded in 1980. Export prices rose by an average of 2%, but production costs increased by 39%. The industry's performance was characterized by a late start to the 1981 harvest due to the delay in settling an industrial dispute, bad weather, and a shortage of labour, all of which combined to prolong the harvest and reduced the quality of the cane delivered to the factories. In addition, domestic oil production also fell by almost a third as greater emphasis was placed on exploration during the year.

The domestically-oriented sectors, particularly construction and distribution (wholesale and retail trade) sectors, generally remained buoyant, although the real rates of growth recorded were lower than those of recent years. The buoyancy of the construction sector enabled it to surpass agriculture as a generator of income, while the government services continued to be the second largest contributor to GDP. Activity in the distribution sector registered a 2.1% increase. The sector maintained its position as the leading income generator in the Barbados economy, contributing 22% of GDP (see table 2).

Total value of exports of goods and services declined by 1%, mainly because the volume of export goods was adversely affected by the world recession, while the total value of imports of goods and services increased by 8%. Although the current account balance indicated a deficit of US\$ 84 million, this was more than offset by a large surplus (approximately US\$ 105 million) in the balance on capital account. As a result, the global balance of payments showed a surplus of US\$ 21 million and it was possible to add around US\$ 24 million to the international reserves.

As regards the financial sector, during the review period liquidity fell sharply as deposit growth failed to keep up with the expansion of credit. The growth rate of savings deposits was lower in 1981 than in 1980, and the National Insurance Scheme (NIS) withdrew large sums from its time deposit to purchase treasury bonds. The slow-down in economic activity reduced the borrowing needs of the manufacturing sector, and Central Bank restrictions limited credit for personal loans and the distribution sector. In contrast, there was a sharp rise in credit to agriculture and tourism.

¹Since July 1975 the Barbados dollar has been linked to the US dollar at the rate of US\$ 1.00 = B\$ 2.00.

High capital expenditure and weak revenue led to serious deterioration in government finances. Provisional estimates placed capital expenditure at B\$ 187 million for 1981, representing an increase of B\$ 84 million or 82% over the 1980 figure. This rapid upward movement reflected considerable cost overruns in many projects and delays in the implementation of others. Current expenditure for 1981 was provisionally estimated at B\$ 369 million or a decrease of 1% from the revised 1980 figure of B\$ 372 million. Current revenue on the other hand, was estimated at B\$ 414 million. The estimated surplus on the current account amounted to B\$ 45 million, compared with a surplus of B\$ 49 million in 1980. As the year progressed, the payments imbalance and the fiscal deficit caused the Government to take certain measures, including borrowing heavily from the Central Bank. Introducing additional taxation and floating a loan on the Eurodollar market. At the end of the year the national debt stood at B\$ 683 million—an increase of B\$ 190 million or 39% over 1980.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981 ^a
A. Basic economic indicators				
Gross domestic product at factor cost (millions of current Barbados dollars)	984	1 190	1 461	1 646
Per capita gross domestic product (current prices)	3 984	4 793	5 868	6 586
Population (thousands of inhabitants)	247	248	249	250
Growth rates				
B. Short-run economic indicators				
Gross domestic product	12.1	21.3	22.8	12.7
Per capita gross domestic product	11.6	20.3	22.4	12.2
Current value of exports of goods and services	25.8	33.7	29.6	-1.1
Current value of imports of goods and services	15.9	30.5	25.8	8.2
Consumer price index				
December - December	...	...	14.0	12.3
Annual averages variation	...	...	6.9	14.6
Money supply	21.7	41.8	7.9	4.6
Wages and salaries ^b	13.9	14.3	26.1	8.4
Rates of unemployment	12.4	12.8	12.6	10.7
Current income of government	24.6	19.0	23.7	-1.7
Total expenditure of government	6.7	21.0	20.5	17.2
Fiscal deficit as a percentage of total expenditure of government	12.0	13.7	11.4	25.5
Millions of dollars				
C. External sector				
Trade balance (goods and services)	-42	-45	-40	-95
Balance on current account	-33	-39	-27	-84
Variation in net international reserves	23	14	22	24
External debt	45	56	82	130

Source: Ministry of Finance and Planning, Barbados, Barbados Economic Report, 1981, February 1982, Central Bank of Barbados, Annual Statistical Digest, 1981; Economic and Financial Statistics, February 1982; Balance of Payments of Barbados, 1981, and data supplied to CEPAL.

^aPreliminary figures.

^bData relate to rough average annual percentage increase.

Table 2

**BARBADOS: GROSS DOMESTIC PRODUCT, BY ECONOMIC
ACTIVITY, AT FACTOR COST**

	Millions of current Barbados dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1975	1981 ^a	1979	1980	1981 ^a
Gross domestic product	1 190	1 461	1 646	100.0	100.0	21.3	22.8	12.7
Goods	337	420	476	30.4	28.9	19.5	24.5	13.3
Agriculture	109	144	126	13.3	7.7	19.0	31.7	-12.3
Mining and quarrying	9	12	17	0.2	1.0	31.0	31.2	25.3
Manufacturing	131	159	202	10.3	12.2	20.8	22.1	26.7
Construction	88	105	130	6.6	7.9	17.3	18.6	24.8
Basic services	88	109	122	8.7	7.4	10.6	23.2	12.3
Electricity gas and water	18	22	23	1.5	1.4	16.6	20.2	5.5
Transport storage and communications	70	87	99	7.2	6.0	9.2	24.0	14.0
Other services	764	932	1 049	61.0	63.7	23.5	22.0	12.5
Wholesale and retail trade	259	319	369	18.2	22.4	26.7	23.0	15.6
Tourism	144	175	194	9.3	11.8	31.3	21.5	11.1
Finance, insurance, real estate and business services	135	163	191	14.0	11.6	16.8	20.4	17.6
General services	46	58	69	4.4	4.2	22.0	24.9	20.5
Government services	180	218	225	15.1	13.7	19.3	21.5	3.1

Source: Barbados Statistical Service and Ministry of Finance and Planning, *Barbados Economic Report*, 1981.

^aPreliminary figures.

2. Trends in economic activity

(a) *Growth of the main sectors*

(i) *Agriculture.*² The agricultural contribution to GDP at current prices in 1981 was estimated at B\$ 126 million — a drop of 12% in contrast with a 32% increase in 1980. The sector's share in GDP, thus, declined during 1981 to 7.7% from its level of 9.8% in 1980. The value of the sugar product fell from B\$ 94 million in 1980 to B\$ 71 million in 1981, while non-sugar agriculture and fishing grew by B\$ 5.7 million to B\$ 55 million. Sugar's share of the GDP thus fell from 6.4% to 4.2%.

Total sugar production decreased by 30% from some 135 000 tons in 1980 to some 94 000 tons in 1981. The principal factors responsible for this poor performance include the delay of some four weeks in the start of harvesting and unseasonal heavy rains during April to June which resulted in some cane not being harvested by the end of the season. The rains also affected the sucrose content, so that the tonnage of cane required to produce a ton of sugar was increased. A number of cane fires also caused damage to 2 600 hectares or about 16% of the total crop. This compared favourably, however, with the number of hectares burnt the previous year, when 3 837 hectares, or approximately 25% of the crop were damaged. The tons of cane/tons of sugar ratio moved from 8.9:1 in 1980 to 10.3:1 in 1981, indicating a drop in yield. There was also a drop in the yield of cane per hectare from 75 tons in 1980 to 61 tons in 1981 (see table 3).

Sugar revenues were considerably lower in 1981 as reduced output coincided with a weakening of the pound sterling. Thus, total sugar exports dropped by 33% from some 119 000 tons in 1980 to some 80 000 tons in 1981 while earnings fell approximately from B\$ 106 million in 1980 to B\$ 75 million.

²Including sugar manufacturing.

Non-sugar agriculture and fishing grew by an estimated 8%. Livestock production and fish landed increased by 12% and 18%, respectively. However, domestic food crops declined by 2% and vegetable production increased by 3.2%.

Heavy rains during the year were mainly responsible for the drops in the output of yams (-48%), sweet potatoes (-35%) and onions (-16%). Production of beans, carrots, cabbages, tomatoes and egg plants also registered decreases. On the other hand, substantial increases were recorded in the production of beetroot (42%), cucumbers (121%) and pumpkins (3%) (see table 4).

There was no increase in cotton production during 1981 because the Government, which was the principal producer, ceased production. The main problems facing the industry appeared to be a shortage of labour and poor management.

Poultry production rose during 1981 by 15%, as the industry replaced birds destroyed during the hurricane of 1980. Egg production declined by 8.5%, while milk production went down by 18%, but increases were recorded in the production of beef and veal (6% and 16%, respectively). Mutton production fell by 18%, but pork production rose by about 3% in 1981.

As regards fish catches, the upgrading of the fishing fleet after the losses suffered in Hurricane Allen in August 1980 may have contributed to the increase of 17% in fish landed in 1981.

(ii) *Manufacturing*. As stated above, performance of the manufacturing sector in 1981 was high in nominal terms, but reflected a sharp negative change in real terms. When account is taken of rising prices, the value of output fell in real terms by 5.5%. The contribution of the sector to GDP, however, remained stable at 12%.³

The index of total industrial production went down by 3.6% from 175.4 in 1980 to 169.1 in 1981. As a result of the weak export demand caused by the international recession, food processing, electronic goods and other manufactured products declined by 5.1%, 6.5% and 11.3%, respectively, compared with positive growth rates of 3.5%, 15% and 2% in the previous year. The production of beverages and tobacco also declined by 5.2% in contrast with its increase of 9.4% in 1980.

Some growth was recorded in quarrying (11.4%) and non-metallic mineral products (10.3%), the 1980 rates of increase having been 64.5% and 6.8%, respectively. Although the output of chemicals did not fall, there was a marked slowing of growth from 25.2% in 1980 to 0.8% in 1981. Wearing apparel, which had recorded a 2.2% decrease in 1980, increased by only 0.7% in 1981 (see table 5 for production of some manufactured goods).

During 1981 the Industrial Development Corporation continued its efforts by expanding its overseas promotional activity to North America, Europe and Asia and stimulating the flow of local private capital by identifying viable manufacturing opportunities, undertaking some projects itself, and promoting joint ventures between the domestic and the foreign private sector.

Table 3
BARBADOS: SUGAR PRODUCTION - AREAS AND AVERAGE YIELDS

Year	Hectares reaped	Cane milled (thousands of tons)	Cane hectare (tons per hectare)	Average yields sugar (tons per hectare)	Sugar output (thousands of tons)
1977	15 765	1 046	66.3	7.6	120.0
1978	15 854	895	36.4	6.3	101.0
1979	15 800	1 052	66.3	7.1	114.0
1980	16 096	1 205	74.9	8.2	135.0
1981	15 800 ^a	966	61.1	5.9	94.0

Source: Barbados Sugar Producers' Association and Central Bank of Barbados.

^a Approximate value.

³ Between 1977 and 1981 the manufacturing sector's contribution to GDP, at factor cost, averaged 11.9%.

Table 4
BARBADOS: INDICATORS OF AGRICULTURAL PRODUCTION

	(Tons)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Production of main crops							
Sugar-cane (thousands)	895	1 052	1 205	966	17.5	14.5	-19.8
Cotton	15	17	7.7	7.7	13.3	54.7	-
Root crops							
Sweet potatoes	4 989	2 219	4 631	3 000	-55.5	108.7	-35.2
Yams	6 851	5 909	7 700	4 000	-13.7	30.3	-48.1
Vegetables							
Beans	...	...	521	510	...	...	-1.9
Beets	...	...	356	507	...	...	42.4
Cabbage	816	1 130	1 717	1 399	38.5	51.9	-18.5
Carrots	...	...	2 395	2 145	...	...	-10.4
Cucumbers	1 755	2 104	818	1 808	19.9	-61.1	121.0
Onions	743	545	473	396	-26.6	23.1	-16.0
Pumpkins	...	...	512	527	...	...	2.9
Tomatoes	726	702	1 636	1 055	-3.3	133.0	-35.5
Other vegetables	...	...	1 296	1 400	...	...	8.0
Stock-raising production							
Bovine	249	324	414	442	30.1	27.8	6.8
Pork	1 336	802	918	942	-40.0	14.5	2.6
Mutton	21	40	62	51	90.5	55.0	-17.7
Poultry	4 261	5 273	5 248	6 026	23.8	-0.5	14.8
Eggs	1 814	1 600	1 476	1 350	-11.8	-35.0	-8.5
Milk	2 933	3 192	7 500	6 146	8.8	135.0	-18.0

Source: Ministry of Agriculture, Food and Consumer Affairs, Barbados.

^aPreliminary figures.

In keeping with its policy of providing factory space as an incentive to industry, the IDC now provides eight industrial estates throughout the country. It was reported that in 1981 the Corporation provided some 20 000 square metres of factory space and awarded approved enterprise status to nine firms engaged in various lines of production, including electronic assembly, cosmetics, footwear, household and industrial detergents, typewriter ribbons and packaging. In addition, an already existing industry gained approval for production of processed meats.

Credit outstanding to the manufacturing sector from commercial banks at the end of 1981 showed an increase of B\$ 9 million to B\$ 104 million over the year absorbing 16% of the total credit outstanding to all sectors. Credit from the Barbados Development Bank to the industrial sector stood at B\$ 9 million. This was the main source of credit to the small business sector, which amounted to B\$ 6 million (an increase of 15% over the previous year in keeping with the Government's objective of employment creation and its commitment to business development through support for small enterprises).

(iii) *Energy and natural resources.* During 1981, the Government accelerated the expansion of activities in the areas of conventional and alternative forms of energy, in the development of mineral resources, and in the level of involvement and co-operation of the private sector in energy matters. In June it centralized and streamlined energy responsibilities by transferring the Energy and Natural Resources Division from the Ministry of Trade and Industry to the planning section of the Ministry of Finance and Planning and raising its status.

In October 1981 the Government, in its attempts to widen the scope of the input in energy planning, created an Energy Advisory Group comprising various organizations which are suppli-

ers, distributors or large consumers of energy, as well as financial development and scientific institutions concerned with energy matters. It is envisaged that this Group will assist the Government in defining major energy issues and the relative priorities, provide advice on a range of options, and ensure participation and co-operation in its members' respective areas of responsibility.

Another major policy development was the establishment of a National Petroleum Corporation which, as a statutory body, will be responsible for the development of the natural resources of the country, including petroleum and natural gas.

Throughout the year the Energy and Natural Resources Division carried out a comprehensive national energy assessment exercise, as part of the Caribbean Alternative Energy System Project, which was executed jointly by the Caribbean Community Secretariat and the Caribbean Development Bank (CARICOM-CDB) and funded by the United States Agency for International Development. The goal of the assessment was to gain a better understanding of the national energy system in order to permit better design of programmes to conserve scarce energy, manage its supply and use, develop indigenous resources and anticipate energy problems. Among the activities carried out to this end interviews were conducted with representatives of public and private sector energy-consuming entities, including government departments, business associations, public utilities and oil suppliers.

In the final report of the assessment, conservation was identified as the one energy option for Barbados which would achieve tangible results in terms of energy savings in the very short term. The report also contained other information, including a compilation and review of historical,

Table 5

BARBADOS: INDICATORS OF INDUSTRIAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Production of some manufactures							
Sugar ^b	101	114	132	94	12.9	15.8	-28.8
Rum ^c	8 896	6 208	8 646	572	-30.2	39.3	-32.5
Beer ^c	9 046	7 383	8 578	9 220	-18.4	16.2	7.5
Margarine ^d	2 361	2 074	2 238	3 039	-12.2	7.9	35.8
Lard ^d	1 481	1 259	1 453	2 206	-15.0	15.4	51.8
Malt beverages ^c	4 352	2 914	3 300	3 691	-32.7	13.2	11.8
Non-alcoholic beverages ^c	19 761	19 916	18 916	17 934	0.8	-5.0	-5.2
Animal feeds ^b	35	40	39	45	14.3	-2.5	15.4
Milk products ^{de}	9 700	9 800	10 000	9 300	1.0	2.0	-0.7
Cigarettes ^d	229	230	224	260	0.4	-2.6	16.1
Crude petroleum ^f	43.5	45.1	48.6	33.6	3.7	7.8	30.9
Natural gas ^f	9 599	11 667	13 252	8 000	21.5	13.6	-39.6
Gasoline ^f	52.9	55.4	55.1	58.4	4.7	-0.5	6.0
Diesel oil ^f	40.1	42.8	49.7	50.3	6.7	16.1	1.2
Fuel oil ^f	78.9	91.5	96.4	99.1	16.0	5.4	2.8
Other indicators							
Electricity generated ^g	269	296	310	327	10.0	4.7	5.5

Source: Statistical Services, Barbados, *Monthly Digest of Statistics*; Ministry of Finance and Planning, Barbados *Economic Report, 1980*; Central Bank of Barbados, *Economic and Financial Statistics*, February 1982.

^a Preliminary figures.

^b Thousands of tons.

^c Thousands of litres.

^d Tons.

^e Converted to the fresh milk equivalent.

^f Thousands of cubic metres.

^g Millions of kWh.

Table 6

BARBADOS: VALUE OF IMPORTS OF SELECTED HYDROCARBONS

(Millions of Barbados dollars)

	1977	1978	1979	1980 ^a	1981 ^a
Total	62.5	60.5	101.1	135.2	151.7
Crude petroleum	26.6	24.8	42.4	36.9	59.6
Aviation gasoline	0.4	0.6	0.3	1.3	1.7
Jet fuel	18.2	17.8	33.0	58.1	55.0
Diesel oil	7.2	6.3	9.9	13.9	10.7
Other fuel oil	6.6	6.9	10.0	15.7	16.5
Liquefied petroleum gas	3.5	4.0	5.2	8.5	8.1
Other gases	-	0.1	0.3	0.8	0.1

Source: Barbados, Statistical Service, Statistics of Monthly Overseas Trade, February 1982 and data supplied to CEPAL.

^a Preliminary figures.

current and projected data on energy supply, prices and demand; identification and evaluation of major energy policy issues, and an outline of a follow-up programme to assist in the implementation of the recommendations.

In pursuit of its main objective of achieving self-sufficiency in petroleum supply, the Government embarked on an expanded programme of petroleum and natural gas exploration, with emphasis being shifted from conventional shallow-well drilling to deep drilling and exploration. During the course of the year Mobil Explorations Barbados Limited completed the programme of sinking six deep wells (over 10 000 feet) which it had begun in 1980. In addition a further five wells tapering off at 8 000 feet were completed, bringing the total to 50 wells being drilled. Because of the longer drilling and completion times of the deep wells and the low oil productivity in the deeper zones, daily oil production dropped from an average of 800 barrels per day in 1980 to an average of 650 barrels per day in 1981.

Production of crude oil during 1981 was 211 375 barrels —nearly 31% lower than the 305 454 barrels produced in 1980. Natural gas, for its part, registered a 45% decline to 9 879 million cubic meters as compared to the 1980 figure of 17 027 million cubic meters. The shortfall in the supply of petroleum was made good by an increase in imports, which came to B\$ 152 million as compared with B\$ 135 million the year before (see table 6).

Under a previous arrangement between the Government and the Barbados Light and Power Company, locally produced natural gas was piped to the power company in an effort to reduce imports. Total electricity consumed increased by 6.7% over 1980, largely as a result of on-going hotel and industrial expansion and increases in the number of electricity-consuming units. Revenue from electricity increased by 9%, reflecting a cost increase of about 2%, mainly in fuel prices. Electricity tariffs remained unchanged throughout the year. During 1981 the Barbados Light and Power Company entered into a series of loan agreements totalling B\$ 126 million.

The Mobil Corporation has been carrying out seismic surveys of Barbados in order to determine its hydrocarbon potential. These surveys were completed early in 1981 and the data analysed and interpreted. The report which was subsequently forwarded to the Government now forms the basis of any agreements with oil companies relating to future exploration rights and production practices.

During the year the Government received technical assistance from the United Nations Development Programme in the organization and analysis of energy data, the control of exploration and production practices, and the review and development of petroleum legislation. It also received assistance from the Inter-American Development Bank (IDB) in the development of petroleum resources.

The Government of Barbados (together with a number of Caribbean and Central American countries) reached an agreement with Venezuela and Mexico under which its total crude oil requirements for 1982 would be guaranteed on concessionary terms. Under the provision of this facility Venezuela and Mexico would provide oil to the participating countries on a 50-50 basis. A rebate of 30% of the cost of the oil could be used as a loan over five years at 4% interest. If used for energy-related capital projects, however, the loan would be converted to a soft loan of twenty years' duration at 2% interest. The latter option was adopted by Barbados.

Following extensive studies, it was discovered that it would be disadvantageous for the refinery in Barbados to process the Mexican crude oil, and in this connexion discussions were held between the Governments of Venezuela and Mexico with a view to reaching an arrangement whereby Barbados could increase its benefit from the facility. At present Venezuela provides 100% of the crude oil under the programme.

The Governments of Barbados and Trinidad and Tobago are also holding consultations on a programme similar to the Venezuela-Mexico oil facility.

The Government of Barbados, while focusing attention primarily on oil and gas activities, continued to place emphasis on the examination of various forms of new and renewable sources of energy, especially the sun, winds, waves and biomass.

The major advance made in this area has been in the production of solar-powered water heating appliances. Three local firms are engaged in this industry and market a variety of systems, which are being used by an estimated 2% of local households and 15% of hotels. The Government has also been proceeding with plans to utilize solar-powered space cooling systems. The first such unit was installed in the Government Analyst's Laboratory in September and a second unit is in the process of being installed in the Ministry of Agriculture. The performance of the unit already in operation is being monitored by the Barbados National Standards Institute. If solar-powered cooling is shown to be reliable and economical, its adoption could result in substantial fuel and operating costs savings for a wide range of public and private users.

As regards wind energy, IDB funded a programme for the installation, maintenance and operation of a wind turbine. The programme will be for a period of four years and will cost B\$ 3.7 million.

The Government has provided B\$ 112 000 to finance the second phase of a feasibility study on the potential for generating electricity from wave energy. This phase will concentrate on instrumental wave data collection and analysis.

Bagasse, a by-product of sugar cane, has traditionally been used as an energy source in sugar factories for generating steam to provide electricity, drive machinery and boil sugar. The Government of Barbados, as the major shareholder, has secured funds from the Caribbean Development Bank to build and equip a modern sugar factory that would, among other things, safeguard the participation of small farmers in the sugar industry and at the same time channel excess electricity produced by burning bagasse into the national power grid. However, the poor performance of the sugar industry resulted in this and other plans for bagasse utilization being shelved during 1981. It is hoped that in future crops, however, full use will be made of this source of energy.

(iv) *Construction.* The construction sector expanded for the fourth consecutive year in 1981, obtaining a real growth rate estimated at 4%. The continued shortage of skilled workmen, together with inflated labour costs, delayed the completion of some projects. Mortgage loans from trust companies and commercial banks increased at the same rate as in 1980, but higher construction costs slowed activity in the private sector. Starts on housing and commercial building declined from 193 and 36, respectively, in 1980 to 144 and 15 in 1981, but the sharp expansion in public works more than offset the reduction in private sector construction. Public sector capital expenditure reached B\$ 187 million, an increase of 82% over the 1980 figure. The main government projects included initiatives in the areas of health, urban development, school construction, and the construction of a cement plant.

(b) Population and employment

Preliminary results of the 1980 Population Census revealed that the resident population was 248 983 persons, of whom 118 565 or 47.6% were males and 130 418 or 52.4% were females. The male/female distribution was about even between ages one and 29 years, gradually increasing in favour of females as the ages increased. Some 67.7% of the total population was in the under-35 age group. By the end of December 1981 the resident population was estimated to have reached 250 500 persons, an increase of 1 100 or 0.4% over 1980. The birth rate showed an increase of 1.0 per thousand, while the death rate of 7.4 per thousand was the lowest in eleven years.

The size of the labour force remained virtually unchanged at 114 300 persons during 1981, compared to 114 800 in 1980. The level of employment in Barbados is analysed on a quarterly basis from data collected through the Continuous Household Survey carried out by the Barbados Statistical Service. In the period January to December 1981 there was a net expansion in employment of 1 600 persons from 100 300 in 1980 to 101 900 in 1981, of whom 58 200 were males and 43 700 were females.

The total number of persons unemployed decreased from 14 500 in 1980 to 12 400 in 1981, representing a decline of 14.5%. As a percentage of the total labour force for both sexes, unemployment fell from 12.6% in 1980 to 10.7% in 1981. Male unemployment fell from 9.2% in 1980 to 7.3% in 1981, the corresponding figures for females being 16.7% and 15.1%.

The number of persons not in the labour force grew in the course of the review period from 59 400 persons to 62 500 (see table 7).

3. The external sector**(a) Merchandise trade**

(i) *Exports.* In 1981 the total value of exports of goods fell 7%, as against a 43% rise in the previous year. This reversed the trend of steadily growing exports noted since 1976. A slight increase in the unit value of exports was not sufficient to offset the loss in earnings due to decreases in export volume, which declined by around 10%, also representing a reversal of the upward trend observed since 1975. The unit value, however, increased by 3% following a sharp rise of 20% in the previous year (see table 8).

Sugar, electronic components and clothing account for about 60% of export earnings in 1981 (see table 9). Sugar revenue was lower in 1981 as reduced output coincided with a weakening of the pound sterling. Thus, a 2% increase in the average export price of sugar could not offset the loss in foreign exchange earnings due to the 33% decline in the sugar export volume (see table 10).

Table 7

BARBADOS: SELECTED DATA ON EMPLOYMENT AND UNEMPLOYMENT

	1979	1980	1981
Thousands of persons			
Total number of adults	171.0	174.2	176.8
Labour force	109.0	114.8	114.3
Employed	95.0	100.3	101.9
Unemployed	14.0	14.5	12.4
Not in the labour force	62.0	59.4	62.5
Unemployed, as a percentage of the labour force	12.8	12.6	10.7
Labour force, as a percentage of total adults	63.7	65.9	64.7

Source: Ministry of Finance and Planning, Barbados, *Economic Report*, 1981.

Table 8

BARBADOS: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
Annual rates of change							
Exports of goods, FOB							
Value	40.3	-19.5	12.2	30.0	18.6	43.3	-7.1
Volume	-8.3	12.0	17.0	15.1	18.6	19.0	-9.6
Unit value	52.9	-28.1	-4.1	12.9	-	20.4	2.7
Imports of goods, FOB							
Value	6.2	11.2	14.2	15.1	31.4	26.6	8.5
Volume	-5.3	8.1	6.7	8.6	13.9	10.4	1.5
Unit value	12.1	2.9	7.0	6.1	15.4	14.7	6.9
Terms of trade	36.3	-30.1	-10.3	6.4	-13.3	5.0	-4.0
Indexes (1970 = 100)							
Terms of trade	165.2	115.5	103.6	110.2	95.5	100.3	96.3
Purchasing power of exports of goods	151.9	118.0	123.2	151.3	157.2	197.6	169.9
Purchasing power of exports of goods and services	126.4	117.0	137.3	163.5	192.0	218.0	199.7

Source: CEPAL, on the basis of official statistics.

^aPreliminary figures.

Table 9

BARBADOS: EXPORTS OF GOODS, FOB

	Millions of US dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1977	1981 ^a	1979	1980	1981 ^a
Total exports ^b	94	117	169	154	100.0	100.0	25.0	43.8	-9.1
Main traditional exports	33	37	64	46	34.7	30.0	15.1	68.0	-26.7
Sugar	24	29	53	37	25.0	24.3	23.4	79.8	-28.5
Molasses	3	4	6	4	3.6	2.7	16.4	52.6	-30.3
Rum	3	2	2	2	3.2	1.4	-20.0	-27.1	22.9
Lard and margarine	3	2	3	3	2.9	1.6	-20.4	41.9	-18.0
Non-traditional exports	39	43	56	54	41.8	35.2	9.9	11.7	-2.0
Clothing	20	23	25	26	21.6	16.9	13.1	7.4	5.5
Electronic components	19	20	31	28	20.2	18.3	6.6	51.2	-8.0
Other exports	22	37	49	54	23.5	34.8	67.9	36.7	5.1

Source: Statistical Service, Barbados, External Trade Publications; Central Bank of Barbados, Economic and Financial Statistics, February 1982, and data supplied to CEPAL.

^aPreliminary figures.^bTotal domestic exports, excluding re-exports.

The United States and CARICOM remained the two major markets for both exports and imports. Exports to the United States came to US\$ 82 million or 37% of total export earnings in 1981, compared with US\$ 83 million in the previous year, while exports to CARICOM fell marginally to US\$ 63 million. Trinidad and Tobago, the largest regional market for Barbados' goods, introduced licence restrictions when it became evident that some exporters in the region were not satisfying the area of origin criteria for duty concessions. Sales to Jamaica increased but Barbadian exporters were forced to extend substantial credit to their clients as that country continued to experience a severe shortage of foreign exchange.

(ii) *Imports.* In the period under review the value of total imports increased by 9% as compared with the large increases of 31% in 1979 and 27% in 1980. There was a slower increase in the import volume which went up by only 1.5%, but the import unit value rose faster than before (7%).

The main items among retained imports were machinery and transport equipment (which accounted for 21%); food and beverages (17%); and petroleum and petroleum products (14%) (see table 11). Imports from the United States amounted to US\$ 190 million or 36% of total retained imports: an increase of 6% over 1980. The value of imports from CARICOM countries increased by 1% to US\$ 96 million in 1981, but these countries' relative share in the import bill dropped slightly to 18%.

Table 10

BARBADOS: SUGAR PRODUCTION, EXPORTS AND EARNINGS

	1977	1978	1979	1980	1981
Sugar production at current prices ^a	54.1	51.6	61.5	94.2	70.7
Sugar production as a percentage of GDP	6.4	5.5	7.0	6.4	4.2
Sugar exports ^b	106.2	86.4	98.6	119.3	80.4
Total sugar export earnings ^a	68.4	62.5	70.4	106.0	74.6
Average export price ^c	644.1	722.5	714.0	896.2	916.0
Production costs per ton ^c	600.0	663.4	706.8	756.0	1 050.0

Source: CEPAL, on the basis of official data.

^aMillions of Barbados dollars.

^bThousands of tons.

^cBarbados dollars.

(iii) *Terms of trade and purchasing power of exports.* The terms of trade suffered a 4% drop to 97 points (1970 = 100). This was mainly because, as already noted, the import unit value increased more rapidly than the export unit value (see table 8). The movement of the terms of trade index has been quite volatile but has shown a generally declining tendency since 1976, with the exception of 1978 and 1980.

The purchasing power of exports of goods declined by 14% in 1981 after the marked (26%) rise in the previous year, which was the fourth consecutive increase in this index. The purchasing power of exports of goods and services followed a similar pattern, too, since its 8% decline in 1981 came after four years of continual increases.

(b) *Services trade*

Tourism, which is the mainstay of Barbados' foreign exchange earnings, was again adversely affected in the period under consideration by the recession in the major tourist markets. Thus, in 1981 there was a 5% decline in the number of long-stay (stopover) visitors to a little over 352 600. Tourist arrivals from Canada and the United States showed the greatest declines (13% and 18%, respectively). Despite this, the United States still supplied the greatest percentage of total arrivals (21%), but the number of arrivals from the United Kingdom increased by a record 28%, some

72 000 visitors, or 20% of the total number of arrivals. There was also a rise (6%) in the number of visitors from CARICOM countries (excluding Trinidad and Tobago), but arrivals from the latter country, who account for some 50% of total CARICOM tourists to Barbados, declined by 2% following currency control measures taken in their country of origin.

Cruise ship visitors to Barbados declined by 13% while the average length of stay of visitors dropped from 9.8 days in 1980 to 9.5 in 1981, but tourist expenditure increased from US\$ 237 million in 1980 to an estimated US\$ 264 million. This increase reflected the rises in hotel rates during the summer and winter seasons of 41% and 28%, respectively (see table 12).

The Barbados Board of Tourism, in association with the Barbados Hotel Association, continued its promotional activities during the year in the country's major and other tourist markets, concentrating on promoting the industry through organized tours and local awareness programmes. Promotional tours were undertaken to the United States, Canada, the United Kingdom, Trinidad and Tobago and Puerto Rico.

The industry received 81 new loans totalling B\$ 8 million from the Barbados Development Bank —an increase of 62% over the amount of loans for 1980. Priority was given to small businesses seeking to expand. Outstanding commercial bank credit to the sector increased by 37% for the second consecutive year, reaching 15% of total outstanding credit in 1981. Accommodation increased by 1 244 hotel beds during the review period, bringing total capacity to 13 864 beds, but the rate of bed occupancy dropped from 65% to 53%.

(c) *The balance of payments*

The global balance of payments registered a surplus of US\$ 21 million in 1981, compared with surpluses of US\$ 19 million in 1980 and US\$ 13 million in 1979. Foreign reserves increased by US\$ 24 million in 1981, compared with an increase of US\$ 22 million in the previous year (see table 13).

The merchandise trade deficit was US\$ 345 million (twice as large as that of 1978), while the services balance showed a surplus of US\$ 250 million, similar to the preceding year. The current account registered a deficit of US\$ 84 million as against a deficit of US\$ 27 million in 1980.

Table 11
BARBADOS: IMPORTS OF GOODS

	Millions of US dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1978	1981 ^a	1979	1980	1981 ^a
Total imports	277	390	466	527	100.0	100.0	40.7	19.4	13.2
Consumer goods	114	140	171	186	41.2	35.4	22.7	22.3	8.9
Food and beverages	61	69	82	90	22.1	17.0	11.8	19.2	9.6
Other non-durables	27	37	42	46	9.8	8.8	38.5	12.7	9.5
Durables	11	15	19	25	3.9	4.8	36.6	31.5	30.4
Other manufactured goods	15	19	28	25	5.4	4.8	29.0	45.4	-9.0
Intermediate goods	84	142	162	185	30.0	34.9	71.0	14.0	14.0
Fuels	12	46	54	72	4.2	13.6	299.6	17.7	32.4
Textiles	14	19	20	22	4.9	4.1	39.5	4.0	10.1
Others	58	77	88	91	20.9	17.2	32.8	14.6	3.0
Capital goods	71	103	134	155	25.6	29.4	45.6	29.4	15.8
Machinery	50	75	94	112	18.2	21.3	49.2	24.5	19.9
Construction materials	21	28	40	43	7.4	8.1	36.9	42.4	6.2
Other imports	8	5	-1	1	3.2	0.3	-50.0	-128.1	104.0

Source: Central Bank of Barbados, *Economic and Financial Statistics*, February 1982 and data supplied to CEPAL.

^aPreliminary figures.

Table 12

BARBADOS: SELECTED TOURISM INDICATORS

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Total visitors ^b	442.9	481.0	526.5	488.4	8.6	9.5	-7.2
Stopover visitors ^b	316.9	370.9	370.0	352.6	17.0	-0.2	-4.7
From: United States	85.5	91.4	86.0	74.5	6.9	-5.9	-13.4
Canada	91.0	92.7	85.0	70.0	1.9	-8.3	-17.6
United Kingdom	36.3	49.4	56.2	72.1	36.1	13.8	28.3
Europe	29.2	40.8	38.4	29.6	39.7	-5.9	-22.9
CARICOM countries	55.1	76.0	85.4	86.7	37.9	12.4	1.5
Other countries	19.8	20.6	19.0	19.7	4.0	-7.8	3.7
Cruise-ship visitors ^b	126.0	110.1	156.5	135.8	-12.6	42.1	-13.4
Hotel and guest house beds ^b	11.1	11.9	13.4	14.1	7.2	12.6	5.2
Average length of stay at stopover visitors ^c	9.1	9.9	9.8	9.5	8.8	-1.0	-3.1
Hotel bed occupancy rate	59.3	76.4	65.3	53.0	28.8	-14.5	-18.8
Estimated visitor expenditure ^d	135.5	184.9	236.9	263.5	36.4	28.1	11.2
Hotel and restaurant tax ^d	4.8	5.5	7.3	7.2	15.8	32.7	-0.7

Source: Ministry of Finance and Planning, *Barbados Economic Report*, 1981, and data supplied to CEPAL.

^aPreliminary figures.

^bThousands.

^cDays.

^dMillions of US dollars.

The deterioration in the current account of the balance of payments was further aggravated by the recession in North America and the United Kingdom, and net earnings from tourism increased by only 3%, from US\$ 233 million in 1980 to US\$ 240 million in 1981. Gifts and funds sent back by Barbadians living abroad remained at almost the same level as in 1980. Although private foreign investment and public sector project borrowings more than doubled during 1981, they were insufficient to cover the current account deficit. The Government was therefore forced to borrow on the Eurodollar market to the amount of US\$ 30 million and the Central Bank drew heavily on its short and medium-term lines of credit. These include US\$ 1.5 million in concessional financing from the CARICOM Oil Facility of the Government of Trinidad and Tobago and US\$ 3.5 million from the Venezuela Oil Facility.

4. Wages and prices

(a) Wages

The number of wage negotiations in 1981 was minimal, since most of the negotiations were concluded in 1980 for a two-year period. Only certain subsectors received increases during the year and the average wage increase of this group was 33.9%. The average wage increase for all sectors of the economy was 8.4%, which compares unfavourably with the annual rate of increase in prices for 1981 of 14.6%.

(b) Prices

At the end of 1981, the retail price index stood at 125.3, an increase of 13.7 points (12.3%) over the figure for the previous December. The fastest monthly rate of increase occurred in November, when the index rose by 4.1 points to reach 125.4.

Table 13

BARBADOS: BALANCE OF PAYMENTS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	215	206	257	324	433	561	555
Goods FOB	94	76	85	111	132	188	175
Services ^b	121	130	172	213	301	373	380
Transport and insurance	23	19	27	33	41	60	60
Travel	77	83	111	138	207	252	260
Imports of goods and services	254	279	316	366	478	601	650
Goods FOB	197	219	250	288	379	479	520
Services ^b	56	60	66	78	99	122	130
Transport and insurance	32	31	33	41	51	65	70
Travel	7	8	9	10	13	19	20
Trade balance (goods)	-103	-143	-165	-177	-247	-291	-345
Trade balance (goods and services)	-38	-72	-59	-42	-45	-40	-95
Net payments of profits and interest	-10	-4	-9	-6	-11	-8	-10
Profits	-8	-4	-5	-5	-6	-5	-5
Interest	-3	-1	-5	-1	-5	-3	-5
Net private transfer payments	7	11	13	15	17	21	21
Balance on current account	-42	-66	-55	-33	-39	-27	-84
Long-term capital	24	23	36	23	3	32	...
Direct investment	22	6	5	9	15	1	...
Portfolio investment	0	0	1	1	-10	4	...
Other long-term capital	2	18	30	13	-2	27	...
Official sector ^c	0	3	15	15	4	23	...
Loans received	1	5	18	16	9	26	...
Amortization payments	-1	-2	-3	-1	-4	-2	...
Commercial banks ^c	-1	2	6	2	-6	-4	...
Loans received	0	2	6	2	0	0	...
Amortization payments	-1	0	0	0	-6	-4	...
Other sectors ^c	3	13	9	-4	0	8	...
Loans received	0	11	6	0	0	8	...
Amortization payments	0	0	0	-5	-1	0	...
Official transfer payments	0	2	3	2	5	0	0
Basic balance	-17	-41	-16	-8	-31	5	...
Short-term capital	-4	4	2	10	31	35	...
Official sector	0	0	-1	-1	1	-1	...
Commercial banks	-8	2	-3	-5	9	10	...
Other sectors	3	2	6	16	21	26	...
Errors and omissions (net)	29	22	19	20	13	-21	...
Balance on capital account	49	51	59	55	52	46	105
Global balance ^d	7	-14	5	22	13	19	21
International reserves (minus sign indicates an increase) ^d	1	12	-2	-23	-14	-22	-24
Monetary gold	0	0	0	0	0	-1	.
Special Drawing Rights	0	0	0	0	-2	3	1
IMF reserve position	-1	0	0	0	0	-3	1
Foreign exchange assets	1	12	-9	-23	-4	-13	-22
Other assets	2	1	-1	-1	-8	-2	.
Use made of IMF credit	0	0	8	1	0	-6	-2

Source: Ministry of Finance and Planning, Barbados Economic Report, 1981, and CEPAL, on the basis of official information.

^a Preliminary figures.

^b Services also include other private and official transactions, but not profits and interest payments.

^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^d The difference between the global balance and the changes in international reserves includes such items as gold monetization or demonetization and revaluation adjustments, etc.

In terms of annual averages, the rate of inflation as measured by the consumer price index was 14.6%, indicating a quickening of the pace of price increases. The most significant rises were observed in housing, clothing and footwear, and food. Other less significant increases were noted in the other sections of the index. The rate of increase in the price of fuel and light slackened somewhat, but there was a slight acceleration in price increases in the transportation section (see table 14).

5. Monetary and fiscal policy

(a) *Monetary policy*

Both the Government and the Central Bank moved to neutralize the effects of a high propensity to import and the slower rate of growth of foreign exchange earnings. The Government instituted a number of revenue-raising measures which included an issue of National Savings Bonds. The policy of the Central Bank was designed to encourage savings; to influence the private sector to economize in its use of credit; to encourage the Government to take measures aimed at reducing spending and increasing government revenues; and to warn trade unions of the dangers of inordinately high increases in wages. Monetary measures adopted to achieve these objectives included: (i) an increase in minimum interest rates on savings deposits from 5% to 8%; (ii) an increase in prime lending rates first from 11% to 12.5% and then 13%; (iii) an increase in the average lending rate from 11% to 12.5% and eventually to 15%; (iv) an increase in the Central Bank's general discount rate from 10% to 18% and subsequently 22%; (v) an increase in the reserve requirement for commercial banks from 20% to 25% with effect from 4 November (of which 4% to be held in Treasury Bills and 1% in Government or other approved debentures).

In pursuit of its policy of encouraging the development of the productive sectors, tourism, manufacturing and agriculture, the Bank almost entirely exempted this group from any quantitative restrictions and, in this regard, subsidized the cost of credit to the sugar industry by raising its rediscount to the Agricultural Division of the Barbados National Bank from B\$ 18 million in 1980 to B\$ 41 million in 1981. The Bank also kept open its special rediscount windows to the export manufactures, non-sugar agriculture and small-scale retail business sectors.

The money supply at the end of December 1981, in its narrowest definition, was B\$ 262 million, an increase of B\$ 12 million or 5% over the B\$ 250 million recorded at the end of 1980

Table 14

BARBADOS: EVOLUTION OF DOMESTIC PRICES

	1980	1981
	Annual average variations	
Consumer price index	6.9	14.6
Food	6.6	14.8
Alcoholic beverages and tobacco	11.0	7.9
Housing	3.4	24.3
Clothing and footwear	16.6	17.6
	December to December variation	
Consumer price index	14.0	12.3
Food	12.4	12.6
Alcoholic beverages and tobacco	17.2	2.6
Housing	24.7	21.1
Clothing and footwear	18.5	12.7

Source: Central Bank of Barbados, Economic and Financial Statistics, February 1982.

(see table 15). Commercial bank deposits stood at B\$ 862 million, an increase of B\$ 9 million or 11% over the 1980 level. Total outstanding commercial bank credit rose from B\$ 547 million at the end of 1980 to B\$ 649 million at the end of 1981 (see table 16).

(b) Fiscal policy

One of the major concerns affecting fiscal policy during 1981 was that the rapid increase in disposable incomes, together with the widening government deficit, might generate excessive demands for imports and create serious balance-of-payments difficulties. Wage settlements during 1980 had given workers increases of 30% over two years, and further increases were granted

Table 15
BARBADOS: MONETARY BALANCE

(Millions of Barbados dollars)

	Balance at end of year				Growth rates		
	1978	1979	1980	1981	1979	1980	1981
Money	164	232	250	262	41.8	7.9	4.6
Currency outside banks	66	80	102	111	21.7	26.7	9.5
Demand deposits	98	152	148	150	55.3	-2.0	1.3
Factors of expansion	573	709	838	923	23.8	18.2	10.1
Foreign assets	34	66	103	11	92.6	56.4	-89.3
Domestic credit	539	643	735	912	19.4	14.2	24.0
Government	135	163	165	218	20.5	1.5	31.9
Public institutions	6	8	12	10	21.5	53.4	-17.5
Private sector	397	473	558	684	19.0	18.0	22.5
Factors of absorption	409	477	588	660	16.6	23.1	12.2
Quasi-money (savings and time deposits)	383	455	542	614	18.7	19.1	13.2
Other items (net)	26	22	46	46	-14.7	106.1	1.0

Source: International Monetary Fund, *International Financial Statistics*, May 1982.

Table 16
**BARBADOS: SECTORAL DISTRIBUTION OF
COMMERCIAL BANK CREDIT**

(Millions of Barbados dollars)

Sectors	1978	1979	1980	1981	Growth rates		
					1979	1980	1981
Total	392.6	470.2	546.6	649.1	19.8	16.2	18.8
Agriculture (including fisheries)	20.0	17.6	20.3	26.5	-12.0	15.3	30.5
Mining and quarrying	0.3	0.5	1.4	2.7	66.6	180.0	92.9
Manufacturing	38.8	63.2	94.6	103.6	62.9	49.7	9.5
Distribution	68.5	68.4	87.6	95.0	-0.1	28.1	8.4
Construction	36.1	44.7	39.4	45.3	23.8	-11.9	15.0
Tourism (including entertainment)	50.1	51.8	71.1	97.3	3.4	37.3	36.8
Government	18.2	6.2	4.7	7.4	-65.9	-24.2	57.4
Public utilities	18.4	32.9	30.4	33.6	78.8	-7.6	10.5
Personal	106.9	131.9	135.0	139.3	23.4	2.4	3.2
Other	35.3	53.0	62.1	98.4	50.1	17.2	58.5

Source: Central Bank of Barbados, *Economic and Financial Statistics*, and data supplied to CEPAL.

during 1981. In addition, generous income tax concessions were granted to lower-paid workers in the 1980 budget. The rate of growth of government revenue, however, was more sluggish than anticipated because of the general decline of economic activity and the tax reductions. In fact, provisional estimates indicate that both revenues and recurrent expenditures declined, the former by 2% and the latter by 1%. Taking the 82% increase in capital expenditure into account, the aggregate fiscal deficit increased remarkably from B\$ 54 million in 1980 to B\$ 142 million in 1981 (see table 17). At the end of December 1981, the total national debt was estimated at B\$ 683 million, an increase of B\$ 190 million or 39% over the previous year. The domestic component amounted to B\$ 424 million, a 29% increase over the 1980 figure (B\$ 329 million), while the external debt at the end of 1981 stood at B\$ 259 million or 58% more than the 1980 level of B\$ 164 million.

Table 17

BARBADOS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of current Barbados dollars				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
1. Current revenue	286	340	421	414	19.0	23.7	-1.7
Tax revenue	252	306	373	367	21.6	21.9	-1.7
Direct	127	132	159	164	3.3	20.7	3.6
Indirect	125	174	214	203	40.3	22.9	-5.6
On foreign trade	52	70	86	83	32.8	24.0	-3.9
Non-tax revenue	34	34	48	47	-0.3	39.8	-1.3
2. Current expenditure	256	303	372	369	18.4	22.8	-0.6
3. Savings on current account (1 - 2)	30	37	49	45	23.7	31.1	-9.9
4. Capital expenditure	69	91	103	187	30.8	13.0	81.9
5. Total expenditure (2 + 4)	325	394	475	556	21.0	20.5	17.2
6. Fiscal deficit (1 - 5)	-39	-54	-54	-142	36.4	0.2	166.8

Source: Central Bank of Barbados, Economic and Financial Statistics, February 1982 and data supplied to CEPAL.

^aPreliminary figures.

BELIZE

1. Recent economic trends: Introduction and summary

Unlike many of the small States making up the Caribbean group, Belize has a relatively large land-mass, with known physical resources capable of sustaining a much larger population if adequately exploited. Unfortunately, its small population and inadequate infrastructure have stunted its development.

Throughout most of the 1970s, Belize was able to achieve sustained annual growth rates of over 5%, reaching a level of per capita income of about US\$ 750 (see table 1). This was mainly due to two factors: (i) a very high rate of gross capital formation, averaging nearly 30% between 1975 and 1979, invested for the most part in infrastructure and financed principally by foreign grants and aid, and to a lesser but significant extent by public sector savings and (ii) a generally favourable international situation, especially for the country's exports. Nevertheless, as in all small, open economies, the evolution of Belize's economy cannot escape the vagaries of its external sector.

Thus, in 1980 as in 1974, the high price of sugar protected Belize from the jump in petroleum prices. In 1981, however, much as in 1975-1976, international recession drove down the price of sugar, and this situation was aggravated by the unprecedentedly high interest rates prevailing in that year. This inevitably hamstrung Belize's economic growth, and moreover problems peculiar to Belize also affected the volume of sugar cane production, so that the situation might have been catastrophic, had it not been for the fact that previous sugar contracts at prices above the prevailing world levels cushioned the fall in export earnings.

2. Trends in economic activity

(a) *Global trends*

Belize averaged growth rates of over 5% per year during most of the 1970s, thanks mainly to the expansion of agriculture, especially sugar cane and bananas, and that of the export-oriented garment industry. In 1979, adverse weather conditions hurt agriculture and thus slowed growth to a little over 3% (see table 2), and despite improved climatic conditions growth was sluggish in 1980 too, because of slowdowns in the manufacturing and construction sectors. Appraisals of the limited indicators available for 1981 suggest that the economy stagnated, if indeed it did not decline, throughout most of the year.

(b) *Evolution of the main sectors*

(i) *The agricultural sector.* This sector is the mainstay of the economy, directly accounting for a quarter of the gross domestic product, and for close to one-third when the food processing agro-industry, which it supplies, is included. Over 90% of exports are derived from the primary sector.

The single most important activity of the economy is the production of sugar cane, for cane production, and the sugar mills it supplies, account for 20% of the gross domestic product and over 50% of Belize's domestic exports.¹ Hence, to a significant extent the evolution of cane production determines the evolution of the economy.

¹It should be borne in mind that Belize acts as a transit point for the stockpiling and re-export of many commodities with no local processing. Hence, a distinction must be drawn between the level of total exports, which includes re-exports, and domestic exports, which refers to goods locally produced or processed.

Sugar cane production partially recovered in 1980 from the effects of the bad weather in the previous year, but it declined by almost 4% in 1981 (see table 3), while sugar tonnage declined even more (-5.3%). Of this sugar output, roughly 60% was exported to the United Kingdom at EEC prices (roughly US\$ 0.35 per pound), 30% went to the United States under a guaranteed quota agreement (at roughly US\$ 0.22 per pound), while the remaining 10% was purchased by Canada at world prices (under US\$ 0.20 per pound).

Thanks to these forward contracts with the United Kingdom and the United States, the average selling price of Belize's sugar fell considerably less than world prices, but even so the decline in sugar output, plus the fall in its price, reduced export earnings from this item by nearly 14%, from Bz\$ 96 million to Bz\$ 83 million.² This alone is sufficient to explain why it is unlikely that the country's economy could have grown in 1981.

Banana production, traditionally Belize's second most important agricultural activity, fell by 30% in 1981, to 10 500 tons, with a corresponding decline in export earnings. After a drop in citrus production in 1979 as a consequence of hurricane "Greta" the previous year, the production of oranges rose in 1980 to a record 41 000 tons and subsequently settled to an estimated 36 000 tons in 1981, while grapefruit production increased from 15 000 tons to an estimated 21 000 tons over the same period. The outlook for the industry in 1982 looks promising in view of the frosts which have affected the citrus industry in North America.

Rice production continued to grow in 1981, when it rose by 2.5%. This sustained increase in the production of paddy rice is due to the combined effects of improvements in production technology, increased acreages and a better marketing structure. Rice is produced in two main areas with different technologies—the Belize district and the Toledo district. At least 5 000 tons of polished rice were exported to Jamaica from the Belize district in 1981. This district's high output

Table 1

BELIZE: MAIN ECONOMIC INDICATORS

	1978	1979	1980 ^a
A. Basic economic indicators			
Gross domestic product at market prices (millions of Bz dollars at 1980 prices)	61.9	64.0	65.9
Population (thousands of inhabitants)	154	158	162
Per capita gross domestic product (dollars at 1980 prices)	750	750	760
Annual growth rates			
B. Short-run economic indicators			
Gross domestic product	...	3.2	3.0
Per capita gross domestic product	...	0.7	0.5
Current value of exports of goods	28.3	27.4	8.1
Current value of imports of goods	17.6	25.6	9.7
Money	...	-0.8	11.5
Millions of Bz dollars			
C. External sector			
Trade balance (goods and services)	-25	-30	-35
Balance on current account	-13	-11	-17
Variation in international reserves	4.9	-1.6	...
External debt ^b	...	46	...
Exchange rate (Bz\$ per US\$)	2	2	2

Source: CEPAL, on the basis of official figures.

^aPreliminary figures.

^bExternal public debt outstanding.

²The exchange rate is Bz\$ 2.00=US\$ 1.00.

Table 2
**BELIZE: GROSS DOMESTIC PRODUCT, BY KIND OF
 ECONOMIC ACTIVITY, AT FACTOR COST^{ab}**

	Millions of constant Belize dollars			Percentage breakdown		Growth rate	
	1978	1979	1980	1978	1980	1979	1980
Total gross domestic product	123.9	127.9	131.7	100.0	100.0	3.2	3.0
Goods	51.3	52.2	52.4	41.4	39.8	1.8	0.4
Agriculture, fisheries and forestry	28.4	30.0	29.8	22.9	22.6	5.6	-0.8
Mining and quarrying	0.4	0.4	0.4	0.3	0.3	-	-
Manufacturing	12.6	12.8	13.2	10.2	10.0	1.5	3.5
Construction	9.9	9.1	9.1	8.0	6.9	-8.8	-
Basic services	12.7	13.7	14.4	10.3	11.0	7.7	5.4
Electricity and water	1.5	1.6	1.8	1.2	1.3	8.5	8.6
Transport and communications	11.2	12.1	12.7	9.1	9.6	7.6	5.0
Other services	59.9	62.0	64.8	48.3	49.2	3.5	4.6
Commerce and restaurants	20.5	20.3	21.3	16.6	16.2	-1.0	5.0
Finance and insurance	7.1	7.7	8.3	5.7	6.3	8.3	8.0
Real estate	7.6	8.6	9.0	6.2	6.8	12.2	5.0
Government	12.6	12.9	13.3	10.2	10.1	2.5	2.5
Miscellaneous services	12.0	12.5	12.9	9.7	9.8	3.9	3.5

Source: Belize, Statistical Office.

^a At constant 1973 prices.

^b Provisional estimates.

resulted from its achievement of two crops per year and full mechanization, including aerial sowing. In the Toledo district, more traditional cultivation methods prevailed, with one crop per year being grown by a mixture of mechanized and "slash and burn" methods, but even so it produced some 4 000 tons of rice in 1981, totally filling the storage facilities. In 1981 the price offered to farmers for rice increased from 16 cents per pound to some 20 cents per pound.

Generally speaking, the rest of the agricultural sector registered a mixed performance in 1981. Poultry production increased significantly, but this was almost completely offset by the declines in beef and pork production. Similarly, corn and honey production increased, but the output of kidney beans declined.

Over the last two years, market and price problems have been important constraints on agricultural production. The Government has given incentives for rice and corn, in the form of guaranteed prices and subsidies, but now there is a surplus of production over local demand, with the corresponding problems of marketing and storage. Belize is therefore actively seeking export markets for all major commodities, while seeking to improve quality. The Government is also keen on promoting investment in agro-industry.

The rest of the primary sector, fishing and forestry, which together account for 8% of the country's domestic exports, showed some improvement in 1981. Exports of marine products rose in 1981 to Bz\$ 13.4 million, from the previous year's figure of Bz\$ 7.4 million, in response to significant increases in both volume of production and price. Thus, after the previous year's decline, the volume of exports of marine products, rose by 10% to some 1.1 million pounds in 1981, thanks to the combined effects of training in fishing and record catches. The lobster market was especially favourable, as the price of lobster tails rose from Bz\$ 7.00 in 1980 to between Bz\$ 14.00 and Bz\$ 18.00 in 1981, when lobster exports totalled some 674 000 pounds, with a value of Bz\$ 11.1 million, as opposed to the 1980 catch of 390 000 pounds worth Bz\$ 5.5 million. In order to maintain some balance in the marine ecosystems, the Government has decreed open and close seasons to control over-fishing. Deep-sea fishing has not yet been fully developed, but some funding in this area has been given by the Development Finance Corporation (DFC).

Table 3
BELIZE: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
	Thousands of tons						
Production of main crops							
Sugar cane	1 140.9	1 005.0	1 030.0	993.0	-11.9	2.5	-3.6
Oranges	30.5	23.3	41.3	35.7	-23.6	77.3	-13.6
Grapefruit	10.9	4.7	14.8	21.4	56.9	214.9	44.6
Timber ^b	2 662.0	3 151.0	3 955.0	4 217.0	18.4	25.5	6.6
Rice (paddy)	7.9	8.5	9.3	9.5	8.1	8.9	2.5
Corn	19.5	15.4	18.8	19.0	-21.0	22.1	1.1
Honey ^c	187.0	173.0	213.0	225.0	-7.5	23.1	5.6
Bananas	9.9	16.0	15.0	10.5	61.6	-6.3	-30.0
Red kidney beans	1.0	1.0	1.4	1.3	4.1	36.3	-9.4
Livestock production (meat)^c							
Beef	1 169	1 130	1 050	980	-3.3	-7.1	-6.7
Pork ^d	225	217	206	162	-3.6	-5.1	-21.4
Poultry	1 451	2 008	2 324	2 500	38.4	15.7	7.6

Source: Belize, Central Planning Unit, Ministry of Agriculture, and data supplied CEPAL.

^a Estimates.

^b Thousands of cubic metres.

^c Tons.

^d Excludes slaughtering on farms.

Forestry continued to contribute to the country's foreign exchange earnings to the value of some Bz\$ 3.8 million in 1980, when production was of the order of 4 million cubic metres of timber. Partial data indicate a slight increase in production in 1981, but it may be that there was a small drop in foreign exchange earnings from this commodity, because of a decline in international prices.

(ii) *Manufacturing*. This sector accounts for 10% of the country's gross domestic product. It is overwhelmingly dominated, however, by the production of sugar and molasses, whose output naturally follows closely variations in the production of sugar cane. The rest of manufacturing activity is mainly limited to a number of agro-industrial establishments, based on citrus products, tobacco and flour-milling (see table 4).

Since sugar cane output declined 4% in 1981, it is not surprising that the manufacture of sugar, for its part, declined by a similar amount (-5%). It is likely that the same was true of the production of molasses, since its output, too, tends to follow closely that of sugar. There are no 1981 data on the other industries, but their weight in overall manufacturing is too slight to alter the conclusion that the sector as a whole must have declined in 1981, given the predominance of sugar in it. The only exception might be the case of the garment industry, which although only on an incipient scale has become an important source of foreign exchange, accounting for over 12% of Belize's domestic exports. While no firm data are available on 1981 output, preliminary appraisals suggest that this continued to expand.

(iii) *Construction*. This sector, which is heavily dependent on government activity, normally accounts for some 7% of the gross domestic product, but preliminary estimates of the GDP suggest that there was a virtual stagnation of activity in it in 1980 (see tables 2 and 5), while overall data are not yet available for 1981.

The Development Finance Corporation (DFC) constructed an industrial estate close to the international airport in 1980 and 1981, near the site of an existing estate. Construction of an expanded road network between Belize City and Belmopan continued in 1981, while grain silos in

the Toledo district and in Cayo district were completed in the same year. Construction work on a water treatment plant, which now supplies some 800 gallons of water per minute to Belize City, was completed in 1980. The Canadian International Development Agency (CIDA) is providing Bz\$ 20 million for a modern water and sewerage system for Belize City.

Firm data on private sector construction are not yet available, but the indications are that some construction of hotels, guesthouses and factories has taken place, despite the problems of supply of building materials. Commercial bank credit for building and construction work increased considerably in 1981 (see table 6), but this increase may have been largely offset by the sharp fall in DFC loans for housing. Taken together, these data suggest that at best there was only a modest recovery in construction during 1981.

Table 4
BELIZE: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Production of some important manufactures							
Sugar ^b	115.3	100.2	104.9	99.3	-13.1	4.7	-5.3
Molasses ^b	40.5	32.8	32.4	...	-19.0	-1.2	...
Cigarettes ^c	68.8	62.8	63.4	...	-8.7	1.0	...
Clothing ^d	1 238.0	1 400.0	1 564.0	...	13.1	11.7	...
Fertilizers ^b	3.3	3.4	3.6	...	2.7	6.9	...
Beer and stout ^e	2 909	3 325	3 127	...	13.9	-6.0	...
Flour ^b	7.0	7.2	6.6	...	2.0	-8.0	...
Batteries ^f	3 156	3 431	4 000	...	8.7	16.6	...

Source: Data supplied CEPAL.

^a Estimates.

^b Thousands tons.

^c Millions.

^d Pieces.

^e Thousands liters.

^f Units.

Table 5
BELIZE: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980 ^a	Growth rates		
				1978	1979	1980 ^a
Number of building plans approved	506	181	182	325.2	-64.2	0.6
Aproximate cost ^b	...	...	8	...	...	...
Imports of building materials ^c						
Cement	1 659	1 725	2 269	-6.4	4.0	31.5
Iron and steel plates and corrugated sheets	405	422	1 873	-59.0	4.2	343.8
Iron and steel bars and rods	405	726	743	-41.6	79.3	2.3

Source: Belize, Central Planning Unit and data supplied CEPAL.

^a Estimates.

^b Millions of Belize dollars.

^c Thousands of Belize dollars.

Table 6

BELIZE: SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT

	Millions of current Belize dollars				Percentage breakdown			Growth rates ^b		
	1978	1979	1980	1981 ^a	1976	1980	1981 ^a	1978	1979	1980
Total	65.0	86.6	91.9	104.1	100.0	100.0	100.0	9.2	33.2	6.2
Agriculture	18.1	23.4	24.1	22.6	33.4	26.2	21.7	8.7	29.2	2.6
Forestry and fishing	4.3	1.8	3.8	3.3	0.4	4.1	3.2	86.4	-59.0	117.4
Manufacturing	7.2	10.3	12.5	10.9	8.7	13.6	10.5	48.8	42.8	21.6
Construction	7.2	9.4	9.2	12.1	6.8	10.1	11.7	21.1	29.8	-1.5
Tourism	0.5	0.7	0.7	1.0	1.0	0.7	0.9	0.6	36.1	-7.3
Distributive trades	14.9	23.6	25.2	34.1	28.4	27.4	32.7	9.4	58.4	6.8
Government and statutory bodies	1.0	2.7	2.7	3.8	7.0	2.9	3.7	-28.8	69.0	-2.0
Others	11.7	14.7	13.8	16.3	14.3	15.0	15.7	6.8	25.1	-6.2

Source: Belize, Quarterly Review (several issues) and data supplied to CEPAL.

^a As of September.

^b These are based on the original unrounded data and may therefore differ slightly from those presented above, which were calculated from rounded data.

(iv) *Tourism*. This continues to be a potentially significant earner of foreign exchange, the major tourist attractions being the marine life found on the continental shelf, the archaeological sites of Mayan origin, the cays and the scenic beauty of the rural areas and the hinterland. There has to date been no major governmental thrust to promote tourism, despite the country's proximity to the United States mainland. Tourist accommodation consists mainly of small hotels, most of which are family-type operations with consequently modest facilities. Recently a substantial amount of foreign investment has been attracted to the San Pedro district, which is the hub of the tourist activity, and a number of twenty-room hotels are being constructed. The view of major operators in the tourist industry is that there must be some form of balanced development of tourist facilities in step with infrastructural development, the latter being the province of the Central Government. Between 1978 and 1980 there was a general increase in the number of tourists, with a substantial number of arrivals from North America and a very large proportion of tourists coming overland. It is estimated that the number of tourist arrivals in 1981, however, fell by 2% to about 62 000 persons.

3. The external sector

Exports account for over 50% of the GDP. The economy is thus highly sensitive to changes in the prices of its key exports (principally sugar) or imports (especially petroleum) and in the volume of exportables. As noted earlier, it is likely that the value of Belize's domestic exports declined somewhat in 1981, because of the fall in the volume and/or price of its two principal agricultural exports: sugar and bananas. Consequently, it is probable that the country's current account deficit increased somewhat over 1980. This is suggested, moreover, by the Bz\$ 5 million decline in the international reserves. Nevertheless, current account deficits of the size Belize has been running, though substantial (of the order of 10-15% of the gross domestic product (see table 7)), are still within the limits found among other countries in the Caribbean, where current account deficits as a percentage of GDP range from lows of the order of 5% in the Bahamas, Barbados, and Trinidad and Tobago to highs of the order of 25% and more in Antigua, Dominica, Montserrat and St. Lucia.

Nevertheless, it is important to note that the resource gap or current account deficit would be much larger, or, alternatively, economic activity would be much lower, were it not for continuing overseas grants, principally from the United Kingdom.

Table 7

BELIZE: BALANCE OF PAYMENTS

(Millions of Belize dollars)

	1977	1978	1979	1980 ^a
Current account				
Merchandise (net)				
Exports (FOB)	124.4	159.6	203.4	219.9
Imports (CIF)	180.2	212.0	266.3	292.0
Visible trade balance	-55.8	-52.4	-63.0	-72.1
Invisibles				
Net factor income	-3.5	-3.7	-4.0	-4.5
Net travel	5.6	6.0	6.5	6.7
Transfers				
Overseas aid (United Kingdom)	18.0	19.0	29.0	27.3
Other aid (Canada, United Nations)	3.2	3.6	4.2	5.0
Remittances (net)	3.5	3.6	1.8	2.4
Other (net)	1.4	1.5	1.6	1.8
Balance on current account	27.6	-26.0	-21.9	-33.3

Source: Belize Economic Survey, 1978-1979, Central Planning Unit, and data supplied to CEPAL.

^aPreliminary estimates.

Table 8

BELIZE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of Belize dollars)

	1979	1980	1981 ^a
1. Current income	64.4	73.6	86.5
Direct taxes	14.9	20.1	21.5
Indirect taxes	39.8	44.2	51.5
Non-tax revenue	9.7	9.3	13.5
2. Current expenditure	52.2	63.7	84.2
Wages and salaries	24.6	27.4	32.9
Goods and services	19.4	26.5	
Other	8.2	9.8	
3. Saving on current account (1 - 2)	12.2	9.9	2.4
4. Capital income	1.8	1.3	1.3
5. Capital expenditure	30.6	94.7	
6. Total expenditure (2 + 5)	82.8	94.7	124.0
7. Fiscal deficit (1 + 4 - 6)	-16.6	-19.7	-36.2
8. Financing of deficit	16.6	19.7	36.2
Domestic financing	0.2	8.0	14.7
External financing	16.4	11.7	21.5

Source: CEPAL estimates on the basis of Ministry of Finance data and unpublished working documents.

^aPreliminary estimates for 1981.

4. Monetary and fiscal policy

The Central Government, which encompasses about 75% of the public sector, has consistently turned in savings on current account (see table 8). These have been declining somewhat, however, from 4% of the GDP, as was typical through most of the 1970s, to 3% in 1980 and then to less than 1% in 1981. This reduction would seem to have been due to the need to raise wages for make up for the higher inflation of recent years, and the likely decline of revenues (with respect to projections) due to the stagnation or downturn of economic activity and export earnings during 1981.

The money supply, defined as currency outside banks plus non-public sector demand deposits, increased 6% by the end of September 1981 with respect to the end of 1980. This implies an annual rate of growth of the order of 8%. The same calculation for the total money supply, which includes quasi-money (time and savings deposits), suggests an annual growth rate of the order of 18%. In the absence of a retail price index, and given the likely stagnation in output, this suggests a rate of inflation of the order of 12-15% for 1981: more or less in line with international inflation, and especially that of the country's principal trade partner, the United Kingdom.

BOLIVIA

1. Recent economic trends: Introduction and summary

Conditions in 1981 were not favourable for the Bolivian economy, and in general practically all the economic indicators showed setbacks compared with 1980, which had not been a particularly good year either. Thus, the general trend of the economy can be summed up as a drop in production and investment and an increase in prices, which, together with the wage freeze put into practice, resulted in a substantial reduction in the purchasing power of the population. Furthermore, the balance of payments also turned in a negative performance. The most positive aspect recorded in 1981 was the fact that the central government managed to close the fiscal year with a smaller deficit than in previous years.

The gross domestic product went down by 0.6%, meaning that the rate of expansion was negative for the first time since 1957. This was the culmination of a period of gradual declines in the growth rate which had begun in the mid-1970s. Over the last three years, the economy grew by no more than 2%.

Moreover, the drop in production meant that in 1981 the per capita gross domestic product, in absolute terms, was practically the same as in 1975. After the minimal recovery registered in 1978, this indicator had been going down faster and faster every year, until finally in 1981 it dropped by 3.2%, so that between 1979 and 1981 it had gone down by a total of 6%. By way of comparison, it may be noted that whereas the per capita product of Bolivia was US\$ 370 (at 1970 prices), the average for Latin America was around US\$ 900.

After the large (14%) increase in the terms of trade for goods and services registered in 1980 after two years of nominal increases, the terms of trade went down by 3.1% in 1981: something which had not happened since 1975, when they fell by nearly 20%. As a result of this, there was also a decline in 1981 in real gross income, which went down by 1.2% (see table 1 and figure 1).

Among the most outstanding causes of the drop in production were the declines in the sectors producing goods and "other services". Thus, the first of these went down by a little over 1%, while the second grew by only 0.5%: only the basic services sector expanded, and even then by a relatively small amount (1.1%). At a more disaggregated level, the highest growth rate was that of agriculture, which grew by 2% over the 1980 level, while the biggest drops were in construction and manufacturing (-7% and -3%, respectively).

This almost generalized drop in production was accompanied by some slackening of inflationary pressures. Thus, although prices went up in 1981, they did so to a smaller extent than in 1980, since the variation between annual averages of the consumer price index in 1981 was 32% compared with the 47% increase registered the year before. If the December-December variation is taken, however, then because of the declines which took place as from September the increase in prices was 25%, which is a fairly similar rate to that of 1980 (see table 1 and figure 1).

Within the generally depressive tone of the economic situation, special mention must be made of the sharp reduction in the purchasing power of the population. As a result of the wage freeze decided upon at the beginning of the year, real wages went down by 24%, and in view of the developments which had already taken place in the three-year period 1978-1980, this meant that in the last four years the purchasing power has gone down by over 35%.

The external sector experienced serious difficulties, especially from the second half of the year onwards, when the foreign exchange resources of the Central Bank were practically exhausted. In order to cope with this situation, rigid controls were applied to the sale of foreign exchange so that it would be used only to acquire the most essential goods and take care of the debt servicing payments.

The year closed with a trade surplus, but this was US\$ 40 million less than in 1980. After having increased by 22% in both 1979 and 1980, the value of exports of goods and services went down by 2.3% because of a decline of almost 3% in the volume, thus making four consecutive years of downward trends in the quantum, with the exception of 1979. Although the unit value increased by 0.5%, this was the smallest rise since 1970. The value of imports of goods and services, for its part, increased by 1.4% because of a drop for the third year running in the volume (-23% on this occasion) and an increase of almost 4% in the average price. Payments of profits and interest rose by US\$ 60 million (an increase of 23%), and the current account had a deficit which was US\$ 90 million larger than in 1980 (see table 1 and figure 1). The growing rate of payments of profits and interest has been exerting an increasingly heavy burden on the economy, so that whereas in 1977 these payments were equivalent to 10% of exports of goods and services, in 1981 this proportion came to rather more than 30%.

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	1 818	1 929	2 010	2 078	2 116	2 129	2 116
Population (millions of inhabitants)	4.89	5.02	5.15	5.29	5.43	5.57	5.72
Per capita gross domestic product (dollars at 1970 prices)	372	384	390	393	390	382	370
Growth rates							
B. Short-run economic indicators							
Gross domestic product at market prices	6.6	6.1	4.2	3.4	1.8	0.6	-0.6
Per capita gross domestic product	3.9	3.4	1.6	0.7	-0.8	-2.0	-3.2
Gross domestic income ^b	1.9	6.5	5.0	3.1	1.9	2.6	-1.2
Terms of trade (goods and services)	-19.6	0.8	5.6	0.1	0.5	14.1	-3.1
Current value of exports of goods and services	17.8	28.0	11.5	1.2	21.3	22.1	-2.3
Current value of imports of goods and services	39.8	6.3	15.4	24.6	14.1	-11.7	1.4
Consumer prices							
December - December	6.0	5.5	10.5	13.5	45.4	23.9	25.1
Variation between annual average	8.0	4.5	8.1	10.3	19.7	47.2	32.1
Money	14.8	36.5	20.9	14.2	16.6	42.6	19.6
Wages and salaries ^c	0.5	25.7	11.5	10.8	18.0	35.0	-
Current income of government	12.2	20.2	11.6	11.7	-1.8	40.6	17.7
Total expenditure of government	15.7	28.8	32.9	5.3	30.2	43.1	13.1
Fiscal deficit/total expenditure of government ^d	11.0	16.9	30.2	26.0	44.1	45.2	42.9
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-134	-36	-66	-245	-229	87	50
Balance on current account	-140	-64	-131	-353	-399	-166	-257
Variation in international reserves	-33	54	44	-55	24	-136	21
External debt ^e	883	1 107	1 458	1 762	1 941	2 220	2 542

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cAverage of nominal wages and salaries, except agriculture.

^dPercentages.

^eDisbursed external public and State-guaranteed private external debt.

This substantial current deficit was offset by the net inflow of long-term non-compensatory capital, which exceeded US\$ 450 million: a figure without any precedent since 1970, and marking an increase of 84% over 1980.

The external debt came to US\$ 2 542 million: a similar rate of increase to that of 1980. The fact that external credits did not increase more was due largely to the heavy existing indebtedness and the consequent difficulties in securing more external financing. At the same time, it was necessary to refinance some loans from a consortium of foreign banks, totalling around US\$ 460 million, which had originally had maturities between August 1980 and March 1983. Similar action had to be taken with regard to a loan from the Andean Development Corporation for US\$ 20 million.

As a result of the domestic inflationary pressures, the effective real exchange rate went down considerably, reaching the lowest level since 1970.

There was a marked slackening in the growth rate of the means of payment, which expanded by only 20%, whereas the year before they had increased by over 42%; this meant a return to growth rates relatively similar to those of the period 1977-1979. Among the reasons for this slower rate of growth of the money supply was the item noted earlier as one of the more favourable aspects of the country's economic performance in 1981, namely, that the central government deficit grew by only 8%, whereas in 1979 it had grown by no less than 121%, and the year before it had increased by 46%. In contrast with what had happened in the previous two years, and especially in 1979, when expenditure grew more rapidly than income, in 1981 the reverse took place, with income rising by almost 18% and expenditure by 13%. Even so, however, the fiscal deficit continued to increase sharply as a proportion of total government expenditure (43%), thus marking a period of three consecutive years of considerable increases.

The slower growth rate of the deficit was due to the policy of restriction and reduction of public expenditure which was applied throughout the year, but especially in the second half, and which was aimed at not feeding inflationary pressures likely to result in larger fiscal deficits.

At another level, it may be noted that in the last few days of 1981 a new investments law was approved, taking the place of that adopted in 1971. This was aimed at channelling new national or external resources towards agriculture, agroindustry, stock raising and mining. The ultimate objectives were to raise the degree of self-sufficiency, heighten the degree of processing of raw materials, increase the added value generated in the country, and raise exports, especially those of non-traditional products. In order to achieve these objectives, the measures introduced included confirmation of the right of ownership of the new assets generated, free convertibility of national currency for the payment of debts or the repatriation of profits, exemption from profits tax on new investments, reductions or exemptions regarding other taxes, etc.

Finally, in October 1981, the so-called Three-Year Plan of the Government was adopted, aimed at establishing a new economic development, political and social model characterized in the economic field by expansion of the tax base, the elimination of subsidies and artificial prices, the attraction of foreign capital, a more realistic exchange policy based on the market forces, and the participation of the private sector in State enterprises, even extending to the transfer of some State enterprises. Within this Plan, special mention may be made of the new export promotion law which sought, through a system of fiscal incentives, to promote exports of agricultural and handicraft products in particular.

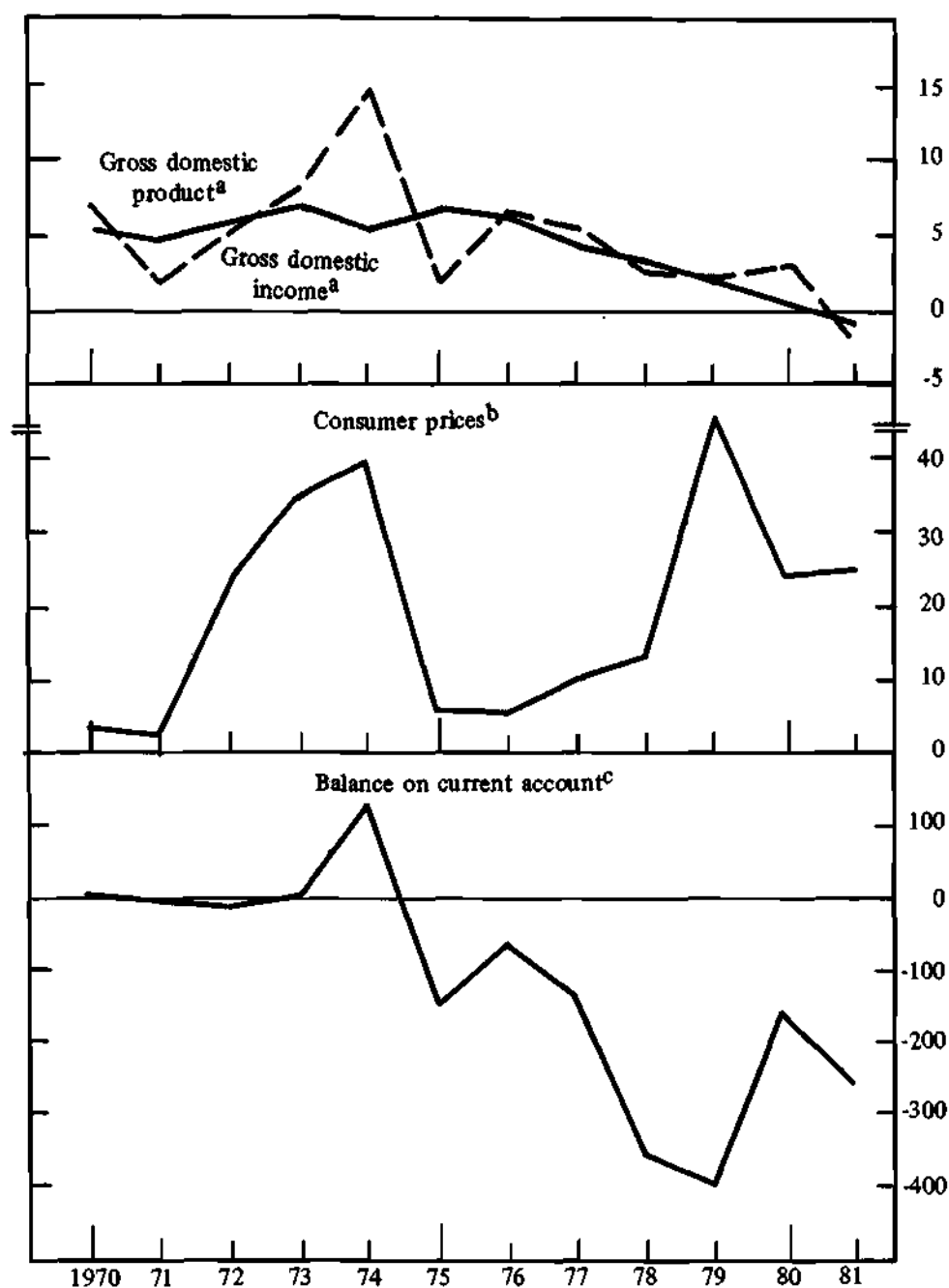
2. Trends in economic activity

(a) *Global supply and demand trends*

In 1981, global supply fell for the second year in succession. Its growth rate had already slackened markedly in 1979, and after dropping by close to 3% in 1980—something which had not happened since 1971—it declined by a little under 1% in 1981.

In contrast with what had happened the previous year, the reasons for this behaviour were the performance of the product and the volume of imports. Thus, whereas in 1981 the decline in

Figure 1
BOLIVIA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rates.

^bPercentage variation, December - December.

^cMillions of US dollars.

Table 2

BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Percentage breakdown		Growth rates			
	1978	1979	1980	1981 ^a	1971	1981 ^a	1978	1979	1980	1981 ^a
Total supply	2 512	2 539	2 467	2 446	112.9	115.6	4.9	1.0	-2.9	-0.8
Gross domestic product at market prices	2 077	2 116	2 129	2 116	100.0	100.0	3.3	1.8	0.6	-0.6
Imports of goods and services ^b	435	423	338	330	12.9	15.6	13.2	-2.8	-20.3	-2.3
Total demand	2 512	2 539	2 467	2 446	112.9	115.6	4.9	1.0	-2.9	-0.8
Domestic demand	2 240	2 258	2 196	2 182	96.7	103.1	6.8	0.8	-2.8	-0.6
Gross domestic investment	376	351	265	244	18.1	11.5	1.0	-6.6	-24.5	-7.8
Gross fixed investment	378	334	284	256	15.2	12.1	9.5	-11.5	-15.0	-10.0
Construction	188	186	176	164	7.0	7.8	3.2	-1.0	-5.0	-7.0
Machinery and equipment	190	148	108	92	8.2	4.3	16.5	-21.9	-27.4	-15.0
Changes in stocks	-2	17	-19	-12	2.9	-0.6	-	-	-	-
Total consumption	1 864	1 907	1 931	1 938	78.6	91.6	8.0	2.3	1.2	0.5
General government	270	279	285	279	11.1	13.2	3.0	3.5	2.0	-2.0
Private	1 594	1 628	1 646	1 659	67.5	78.4	8.9	2.1	1.1	0.8
Exports of goods and services	273	281	271	264	16.2	12.5	-8.0	2.8	-3.4	-2.8

Source: ECLA, on the basis of figures supplied by the Central Bank of Bolivia.

^aPreliminary figures.

^bThe figures on imports and exports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for the purpose.

global supply was due exclusively to the sharp drop in imports, in 1981 there was not only a decline in the volume of imports but also in the product (see table 2).

The product went down by a little under 1%, thus continuing for the sixth consecutive year the downward trend in the economic growth rate. In recent years, the biggest increase was registered in 1975 (6%), but from that date onwards there was a constant slackening in the growth rate until finally a negative rate of -0.6% was reached in 1981. The average rate of expansion of the economy during the four-year period 1978-1981 was only very slightly over 1%: one of the lowest rates in the whole of Latin America.

A factor which contributed particularly to the drop in global supply was the decline in the volume of imports. After going down by 3% in 1979 and suffering a dramatic drop of -20% in 1980, this went down by a little over 2% in 1981, with the result that the volume of imports declined at an average rate of 8% per year over the period 1979-1981.

This unsatisfactory evolution of the economy was also reflected in the drop in domestic demand and in the volume of exports. The first of these indicators, which had already gone down in 1980, suffered a further slight decline as a result of the very marked drop registered once again in gross fixed investment, which went down by 10%. As a result of this drop and of the even sharper declines which had taken place in the previous two years (see table 2), gross fixed capital formation went down by about one-third during the three-year period 1979-1981.

As in the previous two years, the drop in investment particularly affected expenditure on machinery and equipment, for after going down by 22% in 1979 and by over 27% in 1980, this declined by 15% in 1981, so that between 1979 and 1981 it fell by a total of 64%. In view of the foregoing, the economy suffered from a high degree of decapitalization which was clearly demonstrated through the ratio between purchases of equipment and the gross domestic product, since in 1981 this ratio was exactly half what it had been ten years before. As a result of the unfavourable evolution of the two components of gross fixed investment and the slight decline in stocks, the investment coefficient was only a little over 11%: the lowest level since 1970.

In contrast with the marked drop in investment, total consumption increased slightly (0.5%). This was due exclusively to the small rise of almost 1% in private consumption, the modest level of which is explained by the contraction in the product and the wage freeze put into effect during the year. General government consumption, for its part, declined by 2% after the relatively small increases in 1979 and 1980; this reduction was due to the restrictive economic policy applied, particularly from the last quarter of the year onwards.

As already noted, the volume of exports continued to fall in 1981, the decline between 1980 and the year in question being over 6%. Except in 1979, there has been a steady gradual downward trend in exports, so that the average rate of change between 1977 and 1981 was -3% per year.

(b) Evolution of the main sectors of production

As already noted, the most salient feature of the deterioration suffered by the economy during 1981 was the 0.6% drop in the product. This figure was naturally a faithful reflection of what had happened in the various sectors of the economic activity.

The only activity which registered a favourable growth rate was basic services, which increased by a little over 1%. In contrast, production of goods and "other services" declined by 1.1% and 0.5%, respectively. Unfortunately, there is nothing new about this situation: on the contrary, it fits in with the picture of progressive deterioration observed in the last three years (see table 3).

Table 3

BOLIVIA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	1 955	1 966	1 955	100.0	100.0	1.8	0.6	-0.6
Goods	861	859	849	46.7	43.4	0.9	-0.3	-1.1
Agriculture	356	363	370	20.0	18.4	2.9	2.0	2.0
Mining	105	103	102	8.1	5.2	-8.4	-2.0	-1.3
Manufacturing	313	310	300	14.3	15.4	2.8	-1.0	-3.0
Construction	87	83	77	4.3	3.9	-1.1	-5.0	-7.0
Basic services	276	281	284	9.7	14.6	4.4	2.1	1.1
Electricity, gas and water	34	34	35	1.4	1.8	5.3	2.5	1.5
Transport, storage and communications	242	247	249	8.3	12.8	4.3	2.0	1.0
Other services	854	864	860	44.8	44.1	2.6	1.3	-0.5
Commerce, restaurants and hotels	289	291	288	16.8	14.8	1.0	0.7	-1.0
Financial services and insurance	194	196	197	9.5	10.1	2.1	1.2	0.6
Real estate and business services	139	140	140	7.8	7.2	0.3	0.5	-
Ownerships of dwellings and community, social and personal services	371	377	375	18.5	19.2	4.2	1.8	-0.6
Government services	199	201	197	9.2	10.1	5.6	1.3	-2.0
Less: Imputed commission on bank services	39	40	41	1.2	2.1	4.8	2.8	2.0

Source: ECLA, on the basis of figures supplied by the Central Bank of Bolivia.

^a Preliminary figures.

^b As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Thus, although the generation of basic services increased by a little over 1%, this was only half the 1980 growth rate and only a quarter of that registered in 1979. Growth was registered in both the components of basic services: electricity, gas and water grew by 1.5%, and transport by 1%. In the case of the first of these, the small increase registered was the lowest in the last three years (see table 3). Transport, for its part, although it did register some growth, increased by only half the amount registered in 1980 and by a little less than a quarter of that achieved in 1979. Even so, its average growth of 2.5% per year over the past three years was one of the highest in the whole of economic activity.

The growth rate of production of goods, as already noted, was less than that of 1980; after an increase of 2.6% in 1977, the evolution in subsequent years was such that the growth rate for the period 1979-1981 was negative (-0.5%). Only agriculture expanded (2%), thus continuing the steady progress of previous years. In contrast, the cases of mining and construction were particularly significant. The first of these declined for the fifth consecutive year (-1.3%), although it is true that this drop was the smallest in the period 1977-1981, when the average decline was 4.5% per year.

Construction was the sector which declined most (-7%) in 1981. Coming on top of the declines recorded in previous years, this meant that between 1979 and 1981 this sector suffered an average contraction of over 4% per year.

Finally, the "other services" sector also suffered a contraction in 1981 which, added to the scanty increases registered in 1979 and 1980, meant that the average annual growth rate for the three-year period was only 1%, thus confirming the depressive trend of almost the whole of the economic system. Financial activity and insurance showed a small increase, but this was smaller than in previous years. A similar, but more marked, performance was turned in by government services: after the relatively substantial expansion of 1979 and the moderate increase in 1980, the drop of 2% registered in 1981 gave this sector an annual average growth rate for the period 1979-1981 of 1.6%.

(i) *Agriculture.* The modest expansion of agricultural activities continued in 1981, when the product increased by 2%: the same rate as in 1978 and 1980, and more or less similar to that registered in 1979. Small though the growth rate of this sector was, it was nevertheless the highest in the whole economy.

Cereals in general, which accounted for almost 45% of the cultivated area in previous years, showed positive growth except in the case of barley. Thus, maize—which accounts for about 30% of the planted area—registered the highest growth rate of the last four years in 1981 (18%), so that when added to the also high growth rate recorded in 1978 this cereal achieved one of the highest rates of increase of the whole sector (7.6%) for the period 1978-1981 (see table 4).

Other crops of an extensive nature, such as wheat and rice, also turned in a favourable performance. Thus, the growth rate for the first of these was double that of 1980. In spite of the stagnation which took place in 1978 and the setback suffered the following year, the rapid expansion recorded in the subsequent two years more than made up for the previous losses, so that between 1978 and 1981 production of this cereal grew by 5%. The rice crop also increased in 1981 (2%), although this was a smaller increase than that of the year before. Because of the 35% decline suffered in 1978 and 1979, this crop showed significant deterioration over the four-year period under review, when it went down by over 6%.

Finally, a particularly poor performance was turned in by barley, which has been accounting for about 10% of the cultivated area. In 1981 barley production fell by 20%, thus registering a particularly dramatic decline of 44% between 1979 and 1981 because of the falls in production registered in the previous two years. This decline was the second most serious in this three-year period, after the completely adverse performance of cotton.

Industrial crops showed uneven trends. As already noted, a particularly serious deterioration occurred in the case of cotton fibre. The output of this product in 1981 was only one-third that of 1978 and the heavy drops in the period 1979-1980 (72%), added to the contraction of 14% in 1981, meant that in spite of the increase registered in 1978 production went down by an average of 18% per year between 1978 and 1981: the fastest rate of deterioration in the whole agricultural sector.

Soya production too went down very sharply in 1981 (-23%). In spite of this drop, however, the very large increases registered in the previous three years (205%) meant that this was the product which grew most in the last four years (45% per year) (see table 4).

Sugar cane production improved markedly (24%), thus making up for the declines in previous years.

Finally, the rest of the crops turned in an uneven performance. Banana production grew by 2%, that of coca 8%, while the potato crop remained unchanged. In the case of bananas, after sharp fluctuations in previous years the harvest during the four-year period 1978-1981 went down by 1%. The coca harvest grew substantially more slowly than in other years, but because of steady increases from 1978 to 1980, the harvest of this product was the second highest of all those analysed (see table 4). In conclusion, the harvest of potatoes, which account for 14% of the cultivated area, showed no change for the second consecutive year after the stagnation registered in 1979.

The year under review was marked by a new development in Bolivian agriculture. The degree of improvement or deterioration in the income of the sector can be analysed by following the evolution of the prices of agricultural products compared with those of industrial goods. Thus, between 1975 and 1979 the growth rate of the prices paid for agricultural products was always higher than that of the prices of industrial goods, the most favourable level being reached in 1978.

Table 4
BOLIVIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980 ^a	1981 ^a	Growth rates				
					1978	1979	1980 ^a	1981 ^a	1978-1981
Production (thousands of tons)									
Main crops									
Cotton (fibre)	18	14	7	6	12.5	-22.2	-50.0	-14.2	-18.4
Rice	93	82	87	89	-23.1	-11.8	6.0	2.2	-6.6
Bananas	152	202	157	160	-17.3	32.8	-22.2	1.9	-1.0
Sugar cane	2 946	2 969	2 822	3 494	-6.9	0.7	-4.9	23.8	3.1
Barley	63	62	48	38	5.0	-1.5	-22.5	-20.0	-9.9
Coca	19	22	25	27	18.7	15.7	13.6	8.0	14.0
Maize	331	335	327	388	8.5	1.2	2.3	18.6	7.6
Potatoes	716	720	720	720	8.6	0.5	-	-	2.2
Soya	26	35	47	36	136.3	34.6	34.2	-23.4	45.4
Wheat	56	54	50	58	-	-3.5	7.4	16.0	4.9
Area cultivated (thousands of hectares)									
Total cultivated area	1 109	1 097	...	...	0.8	-1.0	...	...	...
Main crops	826	807	880	...	5.7	-2.3	9.0	...	...
Cotton (fibre)	33	34	24	...	-17.5	3.0	-29.4	...	...
Rice	66	56	66	...	-4.3	-15.1	17.8	...	...
Bananas	16	13	17	...	33.3	-18.7	30.7	...	...
Sugar cane	70	68	65	...	-9.3	-2.8	-4.4	...	...
Barley	90	95	75	...	-21.4	5.5	-21.0	...	...
Coca	19	19	20	...	58.3	-	5.2	...	...
Maize	256	244	272	...	6.2	-4.6	11.4	...	...
Potatoes	157	160	130	...	25.6	1.9	-18.7	...	...
Soya	19	24	37	...	171.4	26.3	54.1	...	...
Wheat	87	80	77	...	2.3	-8.0	-3.7	...	...

Source: National Statistical Institute (INE), Bolivia en cifras, 1980. Ministry of Peasant and Agricultural Affairs, and Central Bank.

^aPreliminary figures.

Table 5

**BOLIVIA: RELATION BETWEEN PRICES OF AGRICULTURAL
AND INDUSTRIAL GOODS**

	Wholesale prices index for agricultural goods	Wholesale price index for industrial goods	Parity index
1975	100.0	100.0	100.0
1976	106.2	105.9	100.2
1977	121.0	111.6	108.4
1978	145.9	120.9	120.6
1979	186.4	151.8	122.7
1980	288.3	234.7	122.8
1981	359.7	322.9	111.3

Source: ECLA, on the basis of official data.

Table 6

BOLIVIA: INDICATORS OF MINING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Production of some important minerals^b								
Tin	30.8	27.7	27.2	29.8	-8.4	-10.1	-1.7	9.2
Lead	18.0	15.3	17.2	16.7	-4.7	-14.6	11.8	-2.7
Zinc	59.6	46.8	50.2	47.0	-6.1	-21.4	7.3	-6.4
Tungsten	3.0	3.1	3.3	3.4	0.2	1.8	7.3	2.6
Silver (tons of metal)	195.0	182.0	190.0	205.0	7.7	-6.6	4.3	7.8
Antimony	13.3	14.4	15.4	15.2	0.2	8.1	7.2	-1.0
Copper	2.8	1.8	1.8	2.6	-11.2	-34.4	1.4	40.1
Gold (kilos fine)	1 650	948	1 620	-	44.1	-12.8	70.8	-

Source: Ministry of Mining and Metallurgy; Association of Medium-Scale Mining Companies, and National Statistical Institute (INE)

^aPreliminary figures.

^bThousands of tons fine.

In 1980 the situation remained unchanged, but in 1981 the trend was reversed, and for the first time in the last seven years the parity relationship went down, thus bringing about a reduction in the income of the sector (see table 5).

Furthermore, various problems of a structural nature, such as marketing system difficulties, the fact that a large proportion of the farms are of very small size, the low level of capitalization, etc., continue to be conditioning factors for the future evolution of the sector.

(ii) *Mining.* The deterioration of the mining sector, except for hydrocarbons, continued throughout 1981, since the product generated failed to make any progress after three consecutive years of steady decline. Thus, in 1978 production went down by almost 10%, the next year it again fell by over 8%, and finally in 1980 it dropped by 2%, so that over the four-year period 1978-1981 there has been a total decline of 19%. Going back a little further in time, it may be noted that as from 1971 (except for the year 1973, which registered exceptionally good results, since there was an expansion of 21.6%) the highest growth rate recorded was reached in 1972 (4%), since when it has not proved possible to exceed this figure.

In 1981, the economic and financial difficulties of the mining sector got worse because of the depressed international markets and the unfavourable performance of the national economy.

Problems built up especially from the middle of the year onwards, because of the total control established by the Central Bank on the sale of foreign exchange, which obliged entrepreneurs to buy the foreign exchange they needed on parallel markets at higher exchange rates than the official one.

The mining sector domestic product stagnated in spite of the fact that production of tin —by far the most important product of the sector— increased by over 9%. This rise —the biggest in the last 11 years except for the 11% increase registered in 1977— took place in spite of the 15% decline in world tin prices. Nevertheless, this increase was not enough to offset the drops in the previous three years, when production went down by 19% (see table 6).

Taken together, these data bring out the long period of crisis through which the tin mining industry has dragged, not only for the reasons of a general nature already mentioned for the mining sector as a whole, but also aggravated in the case of this mineral by several other factors: (a) the difference between the costs of Bolivian enterprises and those of their foreign competitors; (b) lower productivity; (c) the gradual exhaustion of the deposits being exploited; (d) the low level of public and private investment; (e) doubts about the efficiency of the public enterprises involved; (f) the obsolescence of the machinery and equipment used; (g) political and social problems, etc. These factors explain why, in the last three years, Bolivia has dropped from second to fourth place among world tin producers.

Other minerals such as tungsten, silver and copper evolved favourably in 1981, although they are of less importance in the total group of mining activities. The trends followed by precious metals were particularly encouraging. Thus, silver grew by 8% even though its price went down by 50%, representing a heightening of the trend already visible since the year before. The growth rate of this mineral in the period 1980-1981 was over 12%; the highest in these two years, except for copper. It is also worth noting the high growth rate shown by gold between 1978 and 1980, for in spite of the sharp drop registered in 1979, the average growth rate came to 34%, which was the highest rate of all during the three-year period in question.

Tungsten production increased by almost 3% (a slower growth rate than in 1980) even though the world price of this metal has gone down to approximately half over the last two years. The small increase registered in 1981 represented the continuation of the slow but steady expansion begun in 1978. The lower growth rate of production was due, *inter alia*, to the drop in international demand, and especially the smaller purchases by Eastern European countries. Finally, copper production increased very considerably (40%), although this metal is of less importance in the mining sector as a whole.

Minerals which turned in a negative performance, in contrast, were zinc, lead and antimony, production of which went down by 6%, 3% and 1% respectively in 1981. With regard to zinc, the decline in the year under review came on top of the sharp fall registered in 1979 (-21%) and the by no means negligible drop of 6% in 1978, so that over the four-year period 1978-1981 production of this mineral has gone down by 27%. The drop in antimony production in 1981, however, was more than offset by the increases in previous years. As for lead, production sank by 3% over the period, after the stagnation registered in 1980.

The evolution of the hydrocarbons industry is worthy of particular attention. Apart from the minimal recovery in crude petroleum production in 1976, output of crude has been going down steadily every year since 1974, the decline in 1981 being 8%. The amount produced has thus been going down systematically for 7 years, with the cumulative drop over this period amounting to more than 71%. The progressive fall in production affected exports to such an extent that they completely disappeared as from 1980 (see table 7).

The extremely unfavourable evolution of the petroleum sector during this period was due largely to the domestic price policy carried on since 1973. Domestic oil prices were systematically lower than those on the international market, and this situation led on the one hand to a considerable increase in domestic consumption of petroleum products and, on the other, to a progressive reduction in the amounts available for export.

Thus, as may be seen from table 7, during most of the 1970s, and specifically up to 1979, the growth rates of domestic sales of the main petroleum products were exceptionally high,

Table 7

BOLIVIA

BOLIVIA: INDICATORS OF THE HYDROCARBONS INDUSTRY

	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Petroleum									
Production of crude ^b	2 744	2 640	2 342	2 362	2 015	1 883	1 617	1 384	1 277
Exports of crude ^c	11 844	10 798	8 282	8 065	4 489	2 863	182	-	-
Processing of petroleum products ^b	878	943	1 171	1 263	1 480	1 561	1 741	1 554	1 410
Domestic sales of selected fuel ^b :									
Gasoline	307	326	363	385	416	438	452	461	461
Kerosene	151	161	167	169	168	165	139	129	105
Diesel oil	114	135	173	208	258	292	293	299	299
Fuel oil	117	137	145	150	164	161	149	152	155
Gas									
Production of natural gas ^d	4 283	4 082	3 975	4 451	4 309	4 456	4 530	4 780	4 967
Exports of natural gas ^c	1 570	1 546	1 557	1 571	1 639	1 581	1 726	2 040	2 196
Growth rates									
Petroleum									
Production of crude	6.2	-3.7	-11.2	0.8	-14.6	-6.5	-14.1	-14.4	-7.7
Exports of crude	8.2	-8.8	-23.2	-2.6	-44.3	-36.2	-93.6	-	-
Processing of petroleum products	6.1	7.4	24.1	7.8	17.1	5.4	11.5	-10.7	-9.2
Domestic sales of selected fuels									
Gasoline	5.1	6.1	11.9	5.7	7.7	5.2	3.1	1.9	-
Kerosene	8.6	6.6	3.7	1.1	-	-1.7	-15.7	-7.1	-18.6
Diesel oil	12.8	18.4	28.1	20.2	24.0	13.1	0.3	2.0	-
Fuel oil	-	17.0	5.8	3.4	9.3	-1.8	-7.4	2.0	1.9
Gas									
Production of natural gas	25.1	-4.6	-2.6	11.9	-3.1	3.4	1.6	5.5	3.9
Exports of natural gas	56.2	-1.5	0.7	0.8	4.3	-3.5	9.1	18.1	7.6

Source: Central Bank of Bolivia.

^aPreliminary figures.^bThousands of cubic metres.^cThousands of barrels.^dMillions of cubic metres.

Table 8

BOLIVIA: GASOLINE PRICES

Year	Nominal price (pesos per cubic metre)	Consumer price index (CPI) (1972=100)	Real price	Index of real prices	Δ as % of CPI	Δ as % gasoline price
1972	745	100.0	745	100.0	-	-
1973	935	131.4	711	95.4	31.4	-4.5
1974	951	214.1	444	59.5	68.8	37.5
1975	1 067	231.1	461	61.8	7.9	3.8
1976	1 665	241.5	689	92.4	4.5	49.4
1977	1 680	261.1	643	86.3	8.1	-6.6
1978	1 691	288.2	586	78.6	10.3	-8.8
1979	1 882	345.0	545	73.1	19.7	-6.9
1980	3 608	508.0	710	95.3	47.2	30.2
1981 ^a	6 103	640.7	952	127.7	-	-

Source: The Economist Intelligence Unit Ltd., Quarterly Economic Review of Peru and Bolivia, 1981 and data supplied to ECLA.

^aUp to March 1981.

particularly in the case of diesel oil. Between 1970 and 1980, domestic consumption of gasoline increased by 70%, while that of diesel oil more than trebled. These considerable increases were in sharp contrast with the expansion in the gross domestic product in real terms for the same period and with the increase in real private consumption, both of which grew by nearly 56%.

Moreover, between 1973 and 1978 the consumption of gasoline and diesel oil rose by 43% and 156% respectively, while over the same period the domestic product and private consumption, both in constant values, grew by only 28% and 29%, respectively.

Obviously, this behaviour was not unconnected with the evolution of price levels in the economy and the prices fixed for the different kinds of fuels. Thus, between 1972 and 1978 the price of gasoline increased in nominal terms by 127%, but taking the rates of inflation into account over the same period, the real variation in its price was negative, since over the seven-year period in question it went down by over 21%. Similarly, whereas the consumer price index rose by 188% over this period, the index of the real price of gasoline went down by 21% (see table 8).

As from the end of 1979, with the sharp increases in the price of this fuel, a more realistic price policy began to be carried out, although gasoline prices were still not brought completely in line with the corresponding rate of inflation (see table 8).

As a result of the high levels of consumption encouraged by the price policy, there was a spectacular drop in exports of petroleum, and after the big expansion of 80% registered in 1971 and the 40% increase recorded during the following two years, the volume of petroleum exports began to drop rapidly as from 1974, until such exports completely disappeared in 1980 (see table 7).

A completely opposite tendency to that of petroleum was followed by natural gas. The growth rate of gas production in 1981 was 4%, which was a little less than the year before (see table 7). This upward trend, which has lasted for four years now, is due *inter alia* to the fact that on account of the growing balance-of-payments difficulties efforts have been made to expand to the maximum the production of anything which may help to accumulate more foreign exchange. Thus, a large proportion of the gas extracted at present is exported, and external sales of natural gas grew by almost 8% in 1981 after a 1980 growth rate which was more than double that of 1979, so that between 1979 and 1981 they have increased by a total of over 34%. In 1981, the most important purchaser was Argentina, which bought over US\$ 300 million worth of gas from Bolivia (50% more than in 1980). It is estimated that at the present rate of production the reserves will last for another 60 years, and investments made in Chuquisaca in 1981 totalled US\$ 18 million.

Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) made profits of almost US\$ 140 million in 1981 thanks to two main reasons: the exports of gas to Argentina and the elimination of subsidies (although some still remain, such as that benefiting Lloyd Aéreo Boliviano as regards the transport of meat by air), which has made it possible to significantly increase the income from the sale of fuels. There are still some factors which negatively affect the performance of the enterprise, however, such as the 20% tax on the value of exports which was introduced in 1942 for reasons of a transitory nature, and the 35% tax on differentials.

As regards the more immediate future of mining, the Government adopted a three-year plan laying down the following objectives for the sector: exploration of the national territory in order to increase the known mineral reserves, with top priority being given to deposits of tin, silver, lead and gold; raising of the indexes of recovery through the industrial application of modern methods and systems of mineral processing; lifting of the prohibitions which exist regarding the fiscal reserves (which account for the very considerable proportion of 40% of the national territory); increasing the added value generated by the sector through a higher degree of ore processing, and finally, preparation of a new tax law.

During the year, an investment plan was also prepared for the period 1981-1985, which provides for new investments totalling US\$ 600 million (to be obtained mainly abroad), US\$ 130 million of which would go to the private mining sector. According to the studies which have been carried out, this would make it possible to increase the level of production by 33% in 1985 and raise the foreign exchange income by about US\$ 1 300 million.

Table 9

BOLIVIA: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Production of some major manufactures (thousands of tons)								
Tin (metal)	16	17	18	20	28.1	0.4	5.9	13.3
Sugar	266	269	242 ^a	223	-0.2	1.1	-9.8	-8.0
Cement	257	251	318	296	-3.7	-2.6	26.9	-7.0
Edible oil ^b	13	14	16	18	3.9	7.5	12.6	12.5
Wheat flour	181	153	146	154	50.8	-15.4	-4.5	5.4
Textiles ^c	21	22	21	20		4.0	-4.0	-4.0
Beer ^b	103	109	117	...	5.6	5.9	7.1	
Petroleum products ^d	1 561	1 741	1 554	1 410	5.5	11.5	-10.7	-9.2

Source: Central Bank of Bolivia, National Statistical Institute, and Ministry of Industry and Commerce.

^aPreliminary figures.

^bMillions of litres.

^cThousands of metres.

^dThousands of cubic metres.

Finally, in the last few months of the year investment projects proposed by the private sector for a total value of US\$ 47 million were presented for the Government's approval.

Among the future expansion plans of YPFB, the two most important are the gas pipeline to Brazil and the pipeline across the Altiplano. The first of these is now being actively studied and is to be carried out jointly by YPFB and PETROBRAS. It will be 1 950 km long, running from Santa Cruz to São Paulo, and it is estimated that it will cost about US\$ 2 billion. The gas pipeline across the Altiplano, which is planned to come into operation in 1984, will connect Santa Cruz and La Paz, passing through Cochabamba and Oruro. In order to carry out this project, a US\$ 97 million loan for a term of 20 years has been obtained from the Inter-American Development Bank.

(iii) *Manufacturing*. Since 1976, when the manufacturing product grew by a little over 8%, the rate of expansion of this sector has gradually been going down, finally reaching negative rates of -1% in 1980 and -3% in 1981 (see table 3).

For the second year in succession, there was a significant drop in the production of petroleum products, which went down by close to 11% in 1980 and by a little over 9% in 1981. These declines coincided with the drop in petroleum extraction (-7.7%) and the slight decline (-2.3%) in domestic sales of petroleum products in the past year.

There were also considerable reductions in 1981 in the output of sugar, cement and textiles. In contrast, there was a significant increase in production of metallic tin and edible oils, and a slight recovery in that of wheat flour (see table 9).

Sugar production, which had remained between 1976 and 1979 at a steady level of around 267 000 tons per year, went down to 242 000 tons in 1980 and 223 000 tons in 1981, even though the cane harvest —after the drop of approximately 10% suffered in the three-year period 1979-1980— showed an increase of 24% in 1981. As regards cement production, which had risen by approximately 27% in 1980, it dropped by 7% in 1981, reflecting the decline in the construction sector in the last two years.

Among the activities whose expansion helped to lessen the decline in manufacturing output was the production of metallic tin, which increased by around 13% in 1981. Between 1975 and 1978 tin production increased by a factor of 2.2, thanks to the expansion of the Vinto smelter, and since then it has increased a further 22%, from 16 400 tons in 1978 to over 20 000 tons in 1981.

Since 1977 there has been an extraordinary increase in the production of edible oils, which, after having increased by 80% in that year, has since expanded at the rate of 14.5% per year. Thus,

after being a net importer of edible oils up to 1976, Bolivia has now become a net exporter, with production exceeding apparent consumption by close to 40% in 1981.

As regards wheat flour production, this achieved a slight recovery of a little over 5% in 1981 after the 20% drop suffered in the previous two years. In 1976 and 1977, and especially in 1978, the national flour industry expanded strongly, more than trebling national production and thus reducing the need for imports.¹

Manufacturing was affected during the year by the difficulties which arose in obtaining foreign exchange because of the controls established by the Central Bank on its sale, which naturally affected the normal supply of raw materials and imported products for industry, thus causing repercussions on production, especially in the second part of the year. In addition, there was a drop in demand, and these two factors together were reflected in the lower level of utilization of installed capacity, which is estimated to have dropped to 40%. Furthermore, as from September permission was given to import some manufactures such as spaghetti, soap, etc., so that national production was faced with the need to improve its competitiveness in order not to lose the domestic market.

3. The external sector

(a) *Merchandise trade*

Exports of goods, which had increased at the rate of around 23% per year in 1979 and 1980, went down by 3.5% in 1981. Imports also fell, but to a smaller extent (barely 1%) (see table 10). As a result of this performance, the merchandise balance showed a surplus of almost US\$ 235 million: 10% less than in 1980 (see table 11).

The drop in exports was due both to the decline in the volume exported (-1.5%) and to the drop in the unit value of the products exported (-2%). As regards the volume, this went down for the second year in succession after the slight recovery in 1979, thus pursuing the tendency towards a steady deterioration in the volume of external sales, which begun in 1977. Between that year and

Table 10

BOLIVIA: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981 ^a
Growth rates					
Exports of goods					
Value	12.7	-1.1	21.4	23.6	-3.5
Volume	-4.0	-11.1	2.2	-2.2	-1.5
Unit value	17.4	11.3	18.8	26.4	-2.0
Imports of goods					
Value	13.0	25.0	12.6	-16.5	-0.7
Volume	1.3	12.8	-6.9	-26.3	-2.3
Unit value	11.5	10.8	21.0	13.2	1.6
Terms of trade	5.7	1.1	-0.5	12.9	-4.9
Indexes (1970 = 100)					
Terms of trade	119.8	121.2	120.6	136.1	129.5
Purchasing power of exports of goods	167.7	150.9	156.2	174.3	162.2
Purchasing power of exports of goods and services	171.1	157.6	162.9	179.6	169.1

Source: ECLA, on the basis of official data.

^aPreliminary figures.

¹The available information on wheat flour import shows that their volume has varied greatly from one year to another, and went down drastically in 1979 and especially in 1980.

1981, the decline has averaged 3% per year. In contrast, the drop in the unit value of exports was the first since 1975; since that year, with a few exceptions, the growth rate had every year been higher than the year before, with the result that between 1976 and 1980 the increase in the average price of exports was around 16% per year.

Imports have been growing considerably in recent years. In 1978 and 1979 they rose by nearly 19%, although in 1980 they went down by over 16% and in 1981 they declined again, albeit by a much smaller amount (-0.7%) (see table 10).

The decline in the latter year was due entirely to the reduction in the volume of external purchases, which dropped by a little over 2%, since the unit value of imports increased by 1.6%. The volume purchased has now gone down for three consecutive years, although it is true that the drops in 1979 and 1980 were considerably greater than that registered in 1981. This confirms the change in the tendency displayed in previous years, since after eight years of steady increases (1971-1978) the volume of imports has now begun to evolve in the opposite direction. It may also be noted that it is ten years (1971) since there was such a small increase as that recorded in 1981 in the average price of imports.

Together, the evolution of the prices of exports and imports of goods caused the terms of trade to go down by 5% after the sharp rise registered the year before (see table 10). As a result of this drop and of the decline in the volume of sales abroad, the purchasing power of exports of goods went down by 7% after two years of steady increases.

(i) *Exports.* After growth rates of close to 20% had been achieved in 1979 and 1980, the rate went down in 1981 (see table 12).

The deterioration which took place in this year was due basically to the sharp drop in non-traditional exports and the decline in sales of tin and silver. Exports of traditional products, which account for approximately 90% of the total, increased (1.8%), whereas exports of non-traditional products went down by a little over 37% (see table 10).

Sales of tin, which was until recently the main export product, went down by a little over 9%. Although this took place for the second year in succession, however, it did not offset the 20% increases registered during the period 1978-1979, so that the cumulative growth rate for the four-year period 1978-1981 was 6.5%. The decline in the value of tin exports during the last year was due more than anything to the drop in world tin prices, since the volume increased by 7%. In the last twelve months, the official price per pound of pure tin went down by 16%: something which had not happened since 1975, when there was a decline of 14%.

This drop in price was due, among other reasons, to the excess supply at the world level, the decline in world demand because of the international recession, and the beginning of a tendency to use some substitute materials. These factors were also heightened by the sale of part of its reserves by the United States General Services Administration.

There was also a sharp drop in 1981 in the value of tungsten exports. Unlike the case of tin, the 8.5% drop registered in these was due to a sharp reduction of more than 10% in the volume exported, since the average unit value increased by a little over 1%. In addition to the international crisis and the announcement by the General Services Administration that it would dispose of its stocks of this mineral, the sales carried out by the People's Republic of China through the Hong Kong market also played a part in affecting the behaviour of this mineral during 1981. Over the last four years, the big declines registered in 1978, 1979 and 1981 offset the large expansion which took place in 1980, with the result that over this period the cumulative growth rate came to barely 2%.

Sales of silver—which has come to be the third most important product in the country's whole external trade, after tin and natural gas—also declined in 1981. Indeed, their rate of decline (40%) was far and away the highest of all export products.

After an increase of over 108% in the unit value of silver in 1980, this fell by 48% in 1981, but the volume exported rose by 16% after having gone down by 2% in the preceding year. The decline in the value of exports after three years of steady increases during which the value of external sales more than trebled still did not prevent their growth rate over the period from 1978 to 1981 being 184%.

Table 11

BOLIVIA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Exports of goods and services	205	198	223	287	594	488	625	697	705	856	1 045	1 021
Goods FOB	190	182	201	261	556	445	563	634	627	762	942	909
Services ^a	15	16	21	26	37	43	62	63	78	94	103	112
Transport and insurance	2	2	3	3	5	7	8	12	15	29	32	35
Travel	3	4	9	12	18	19	25	29	35	37	40	40
Imports of goods and services	180	191	218	267	445	622	661	763	950	1 085	958	971
Goods FOB	135	144	153	193	324	470	512	579	724	815	680	675
Services ^a	45	46	65	74	121	152	149	184	226	270	278	296
Transport and insurance	29	29	35	40	72	99	86	103	140	177	168	188
Travel	4	6	11	13	24	25	31	38	41	45	52	47
Merchandise balance	55	37	48	68	232	-25	51	55	-97	-53	262	234
Trade balance	25	8	5	20	149	-134	-36	-66	-245	-229	87	50
Profits and interest	-25	-17	-22	-23	-25	-9	-31	-67	-113	-181	-261	-320
Profits	-17	-8	-6	-6	-4	15	2	-1	-18	-28	-19	-22
Interest received	2	4	-	7	4	7	11	4	1	2	14	11
Interest paid	-10	-13	-16	-23	-25	-30	-44	-69	-96	-155	-256	-309
Unrequited private transfer payments	2	2	5	5	3	3	3	2	5	11	8	13
Balance on current account	2	-7	-12	2	126	-140	-64	-131	-353	-399	-166	-257
Unrequited official transfer payments	2	5	9	10	11	10	11	13	22	41	48	23
Long-term capital	33	69	93	37	100	159	215	325	293	257	252	465
Direct investment	-76	2	-11	5	26	53	-8	-1	12	18	41	35
Portfolio investment	-	-	-	-	-	-	-	-	-	-	-3	-
Other long-term capital	109	67	103	32	74	106	223	326	281	240	213	430
Official sector ^b	94	16	32	16	59	50	142	169	114	89	264	325
Loans received	22	18	52	31	75	69	180	221	326	149	334	446
Amortization payments	-5	-5	-7	-9	-16	-19	-36	-42	-203	-57	-56	-111
Commercial banks ^b	-	-	-	-	-	-	-	-	-	77	-24	28
Loans received	-	-	-	-	-	-	-	-	-	87	13	54
Amortization payments	-	-	-	-	-	-	-	-	-	-10	-21	-27
Other sectors ^b	16	51	72	17	15	55	81	157	167	74	-26	78
Loans received	31	65	96	51	70	118	140	238	275	151	94	173
Amortization payments	-16	-18	-24	-34	-55	-63	-59	-81	-108	-77	-90	-95
Basic balance	37	67	89	49	237	29	162	207	-39	-100	134	231
Short-term capital	2	-	-13	12	-36	-17	-47	-61	40	147	-20	138
Official sector	3	5	-1	11	-2	4	-7	42	-53	192	-29	194
Commercial banks	-2	8	-4	7	13	-1	-5	38	51	-11	-19	2
Other sectors	1	-13	-8	-6	-47	-20	-35	-141	42	-34	28	-59
Errors and omissions	-40	-69	-75	-64	-78	-47	-63	-79	-85	-28	-260	-357
Balance on capital account	-2	4	13	-5	-3	105	116	198	269	417	19	268
Global balance ^c	-	-3	1	-3	124	-35	51	67	-84	19	-147	11
Total variation in reserves (minus sign indicates an increase)	-6	-7	-4	2	-127	33	-54	-44	55	-24	136	-21
Monetary gold	-1	-1	-1	-	-2	-2	-	-8	-2	-2	-2	-3
Special Drawing Rights	-3	-	-1	1	-1	-5	-	1	-11	18	-	-
IMF reserve position	-	-	-	-	-	-	-7	-2	-3	12	-	-
Foreign exchange assets	-	-7	-4	-11	-121	42	-4	-60	56	-39	72	6
Other assets	-	-	-	-	-	-	-26	24	-4	-14	6	-15
Use made of IMF credit	-2	1	1	13	-4	-1	-16	-	20	-	61	-9

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook*; March 1982; 1981: ECLA, on the basis of official data.^aServices also include other official and private transactions, but not profits and interest.^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^cThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Table 12

BOLIVIA: EXPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1978	1979	1980	1981 ^a	1971	1981 ^a	1978	1979	1980	1981 ^a
Total	724	859	1 036	995	100.0	100.0	0.6	18.6	20.6	-3.9
Main traditional exports	637	741	886	902	80.0	90.6	1.9	16.3	19.5	1.8
Tin	373	395	378	343	49.0	34.4	14.0	5.8	-4.3	-9.2
Tungsten	39	35	47	43	6.4	4.3	-13.3	-10.2	34.2	-8.5
Silver	34	58	118	71	3.7	7.1	9.6	70.5	103.4	-39.8
Zinc	31	42	37	40	6.9	4.0	-31.1	35.4	-11.9	8.1
Antimony	16	29	26	34	4.1	3.4	-11.1	81.2	-10.3	30.7
Other minerals	22	33	34	25	9.7	2.5	-8.3	50.0	3.0	-26.4
Petroleum	42	4	-	-	-	-	-37.3	-90.4	-	-
Natural gas	78	105	221	337	-	33.8	16.4	34.6	110.4	52.4
Main non-traditional exports	87	118	149	93	20.0	9.3	-6.4	35.6	26.2	-37.5
Sugar	14	30	51	5	-	-	-39.1	114.2	70.0	-90.1
Coffee	17	19	21	16	1.3	1.6	-10.5	11.7	10.5	-23.8
Cotton	15	10	1	-	1.8	-	-5.7	-33.3	-90.0	-
Timber	13	19	23	13	1.3	1.3	8.3	46.1	21.0	-43.4
Metal products and machinery	1	4	9	8	-	-	-50.0	300.0	125.0	-11.1
Hides and skins	5	6	5	5	-	-	-	20.0	-16.6	-
Others	22	30	39	46	14.1	4.6	-	36.3	30.0	17.9

Source: Central Bank of Bolivia.

^aPreliminary figures.

There were also marked increases in exports of zinc and antimony, although their share in foreign trade as a whole is considerably smaller (4% and 3.5% respectively, in 1981). Antimony sales increased by 31%, which, coming after the 81% rise registered in 1979, enabled them to more than offset the drops recorded in 1978 and 1980. Zinc, which increased 8%, showed a similar behaviour in the four-year period 1978-1981.

As already noted, exports of hydrocarbons (petroleum and natural gas) confirmed their trends of previous years. Exports of natural gas continued to increase, whereas those of petroleum disappeared completely in 1979.

Natural gas sales continued to rise at high rates: after growing at an average of 42% per year between 1973 and 1979, they doubled in 1980, and in 1981 they grew by a further 52%. In volume terms, natural gas exports also showed relatively high growth rates, although the faster growth only began to take place as from 1979. Among the main reasons for this favourable evolution were the supply contracts signed between the Governments of Bolivia and Argentina, which in 1981 became the main client for Bolivian exports (see table 13).

As already noted, in 1981 non-traditional exports—which only represented 10% of the total—turned in a negative performance, since they fell by almost 38% after the sharp rises recorded in 1978 and 1980, when the growth rates were 35% and 26%, respectively. The individual evolution of the items in this group was relatively erratic over the period. In 1981, however, most of them had either negative growth rates or else stagnated.

As a result of the developments noted above, in 1981 there were substantial changes in the structure of exports. Thus, the share of tin—which contributed half of the foreign exchange income generated by exports at the beginning of the last decade—went down for the third consecutive year and sank to only one-third of its previous level. In contrast, whereas natural gas exports did not exist in 1971, ten years later they accounted for 30% of all the country's external sales.

Finally, with regard to the destination of Bolivian exports, it may be noted that the bulk of them went to three different areas: Argentina, the United States and the European Economic Community. In 1981, these three geographical areas accounted for 96% of all sales abroad, thus confirming once again the tendency which had begun some years before (see table 13). Trade relations with Argentina grew at an increasing rate, especially as regards sales of natural gas. As regards exports to the countries of the Andean Group, the most important purchaser continued to be Peru, which in 1981 made 75% of the total purchases of this group from Bolivia. Exports to the United States have shown fluctuations over the course of time, and in 1980 and 1981 they went down. Finally, sales to the countries of the European Economic Community also declined in 1981.

(ii) *Imports.* As already noted, in recent years imports have shown high growth rates, but from 1980 onwards there was a change in this tendency, and this downward trend continued in 1981, even though the requirement for a prior deposit of 25% in respect of imports which had been introduced in 1975 was eliminated at the beginning of the year.

Table 13

BOLIVIA: DIRECTIONS OF FOREIGN TRADE, CIF
(Millions of dollars)

	1978	1979	1980	1981 ^a	Percentage breakdown			
					1978	1979	1980	1981 ^a
Exports, by countries of destination:								
ALADI	187	230	380	423	25.8	26.7	36.6	45.7
Argentina	120	129	245	360	16.5	15.0	23.6	38.9
Brazil	28	44	36	13	3.8	5.1	3.4	1.4
Chile	19	32	47	8	2.6	3.7	4.5	-
Others	4	2	3	1	-	-	-	-
Andean Group	16	23	48	42	2.2	2.6	4.6	4.5
Peru	7	12	32	31	-	1.3	3.0	3.3
United States	226	284	267	266	31.2	33.0	25.7	28.7
European Economic Community	170	191	253	200	23.4	22.2	24.4	21.6
Netherlands	28	43	45	72	3.8	5.0	4.3	7.7
United Kingdom	85	76	71	38	11.7	8.8	6.8	4.1
Others	57	72	137	90	7.8	8.3	13.2	9.7
Others	141	154	136	106	19.4	17.9	13.1	11.4
Total	724	859	1 036	995	100.0	100.0	100.0	100.0
Imports, by country of origin:								
ALADI	226	259	224	226	27.9	26.8	27.5	27.5
Argentina	91	105	100	101	11.2	10.9	12.2	12.3
Brazil	76	87	70	71	9.4	9.0	8.5	8.6
Chile	26	30	20	20	3.2	3.1	2.4	2.4
Andean Group	27	32	30	30	3.3	3.3	3.6	3.6
Peru	18	21	21	21	2.2	2.1	2.5	2.5
United States	223	269	261	263	27.5	27.9	32.0	32.0
European Economic Community	130	150	134	135	16.0	15.5	16.4	16.4
Federal Republic of Germany	76	81	77	78	9.4	8.4	9.4	9.5
United Kingdom	23	29	25	26	2.8	3.0	3.0	3.1
Others	31	40	32	31	3.8	4.1	3.9	3.7
Others	229	285	195	197	28.3	29.5	23.9	23.9
Japan	131	169	120	121	16.2	17.5	14.7	14.7
Total	808	963	810	821	100.0	100.0	100.0	100.0

Source: Central Bank of Bolivia.

^aPreliminary figures.

Table 14

BOLIVIA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1978	1979	1980	1981 ^a	1971	1981 ^a	1978	1979	1980	1981 ^a
Total	808	963	814	820	100.0	100.0	30.5	19.1	-15.4	0.7
Consumer goods	167	191	159	160	21.6	19.5	28.4	14.3	-16.7	0.6
Non-durable	102	103	83	83	14.7	10.0	37.8	0.9	-19.4	-
Durable	65	88	76	73	6.8	8.9	16.0	35.3	-13.6	-3.9
Raw materials and intermediate goods	262	345	283	277	38.3	33.8	32.9	31.6	-17.9	-2.1
Fuels, etc.	6	13	12	13	1.0	1.6	-14.2	116.6	-7.6	8.3
Goods for agriculture	10	12	11	10	1.1	1.2	25.0	20.0	-8.3	-9.0
Goods for industry	204	252	203	197	27.5	24.0	12.0	23.5	-19.4	-2.9
Construction materials	42	68	57	57	8.6	6.9	-4.5	61.9	-16.1	-
Capital goods	365	423	367	381	40.1	46.4	48.3	15.8	-13.2	3.8
For agriculture	16	21	19	19	2.3	2.4	-5.8	31.2	-9.5	-
For industry	229	254	225	239	17.7	29.0	44.0	10.9	-11.4	6.2
For transport	120	148	123	123	19.3	14.9	71.4	23.3	-16.8	-
Others	14	4	4	4	-	-	600.0	-71.4	-	-

Source: Central Bank of Bolivia.

^aPreliminary figures.

The biggest increase in imports took place in the case of capital goods (4%), although this was still not enough to offset the sharp fall registered the year before. Nevertheless, because of the big increases registered in 1978 and 1979 (64%) the average rate of expansion of imports of capital goods over the last four years came to 14%. The category which grew most was that of capital goods for industry (over 6%), and taking into account the large imports recorded in 1978 and 1979, this meant that the average growth in the value of such imports came to 12% per year. The remaining imports of capital goods, however, continued to stagnate.

In second place, imports of consumer goods also increased, but only by a very small amount (barely 0.5%). In this case, the slight recovery registered in 1981 was not sufficient to offset the sharp decline in 1980 (-17%), so that on average the growth rate fell by 8% over the two-year period 1980-1981.

Finally, imports of raw materials and intermediate goods went down for the second year running (this time by 2%), after the substantial increases registered in 1978 and 1979, thus reflecting the contraction suffered by the economy in the last two years. If we compare the average rate for the period 1978-1979 with that for 1980-1981, we see that whereas in the first period the growth rate was of the order of 32%, in the last two years a negative rate of -10% was registered. Within this group, the drop in imports of raw materials for industry was the most significant because of the high weighting (24%) which these goods have in total imports. The drop in these imports in 1981 was only 3%, but as they had gone down by 19% the year before, the average drop over these two years was 11%. Even so, because of the big expansion registered in the two-year period 1978-1979, such imports grew altogether over the four-year period by 6%. Purchases of construction materials stagnated with respect to the year before, and this, together with the sharp drop registered in 1979, was a good illustration of the sluggishness of the construction sector (see table 14).

Bolivia displays a very high degree of concentration of imports and hence of dependency with respect to particular geographical areas or zones. The countries which provide most of the imports are the same as those which receive most of Bolivia's exports, with one exception: in the last three years, Japan has been the second or third supplier of the Bolivian economy after the United States, considerably ahead of the next most important supplier (see table 13).

(b) *The current account position and its financing*

In 1981, the balance-of-payments current account deficit came to close on US\$ 260 million: US\$ 90 million more than in 1980. The reason for this deficit was the behaviour of the trade and services balances.

As regards the merchandise trade balance, this achieved a surplus of a little over US\$ 230 million (approximately US\$ 30 million less than in 1980).

Consequently, the current account deficit was due entirely to the behaviour of the services balance, and more specifically to the deficit on the profits and interest section of this balance, which increased by US\$ 60 million in 1981 —a rise of 22%.

When this account is broken down it is seen that payments of profits increased by only US\$ 3 million, whereas payments in respect of interest rose by US\$ 53 million —an increase of almost 21%. Because of this rise and of the even larger ones which took place in 1979 and 1980, the amounts involved under this heading have increased almost five-fold since 1977 (see table 11).

As a result of the foregoing, the relation between payments of profits and interest and exports has followed a steady upward trend with time. Thus, in 1977 payments of profits and interest were equivalent to 10% of exports, while in 1979 they amounted to 21%, and in 1981 they came to 31%. This is of course directly related with the inflow of foreign capital and particularly with the high level of external indebtedness recorded. Likewise, if we compare the growth rate of exports with that of payments of profits and interest, it must be concluded that in the most recent past the development of the economy can only have been based on progressively greater indebtedness. Thus, from 1977 to the present time the increases in payments of profits and interest have always been higher than the growth rate of exports. In 1977, the growth rate of payments of profits and interest was ten times greater than that of exports of goods and services; in 1979 profits and interest payments grew by 60% while exports only increased by 21%, and finally, in 1981, such payments abroad once again increased by 22%, while exports went down by a little over 2%.

The net inflow of long-term capital during 1981 came to US\$ 465 million: a figure unparalleled since 1970 and representing an increase of 84% over the previous year. Within this category, the most important component was long-term loans, since the amount of capital received through direct investments was very small, totalling only US\$ 35 million. In contrast, long-term loans amounted to US\$ 430 million, meaning that they doubled in the space of a year.

The main recipient of external credit was the official sector, consisting of general government and the Central Bank. This sector received external financing to the value of US\$ 325 million: US\$ 60 million more than in 1980. The constantly increasing indebtedness of the public sector underlines its difficulties in procuring the resources needed by it within the domestic economic system, so that it has been obliged to resort to external sources. Thus, in the period 1978-1981 the total net inflow of capital received by the public sector was nearly US\$ 800 million, representing an average annual growth rate of 41%.

The second place as regards need to obtain resources abroad was occupied by the category denominated "other sectors", which covers the transactions of State and private enterprises. The most important feature of the evolution of this category in 1981 was the fact that the net inflow of capital came to US\$ 78 million, which represents a spectacular turnaround when one bears in mind that in 1980 the balance on this account was practically zero.

Finally, imports of capital by the commercial banks—including the Banco del Estado, the private commercial banks and specialized banks—came to US\$ 28 million, which also represents an increase over the previous year, although smaller than in the cases mentioned earlier.

Movements of short-term capital changed direction in 1981. Thus, whereas in 1980 there had been a net outflow of the order of US\$ 20 million, in 1981 there was a net inflow to the value of almost US\$ 140 million. In this case, once again, the most important borrower of external funds was the official sector, whose debt situation had improved in 1980 but which deteriorated in 1981. The total loans received came to US\$ 190 million, which represented exactly 60% of the long-term capital received by the official sector. In contrast, the "other sectors" category showed a change in that instead of the imports of capital to the value of US\$ 28 million recorded in 1980 it registered exports of capital to the value of US\$ 59 million.

In 1981 there was a net outflow of almost US\$ 360 million under the heading of errors and omissions, representing an increase of 37% (almost US\$ 100 million) over the previous year and the highest value achieved by this item since 1970.²

The difficulties which the external sector has had to face in the recent past clearly had repercussions on the international reserves of the country which sank by the end of 1981 to a negative figure of US\$ 250 million.

(c) *External indebtedness*

The total contracted public debt in 1981 came to US\$ 3 840 million, while disbursements amounted to US\$ 424 million, representing a decrease of a little over 1% compared with 1980, when the growth rate was 33%.

Amortization payments went down by over 16%, thus representing the third consecutive year in which there was a decline in repayments of the loans obtained, after the big rises registered in 1977 and 1978. There was also a very sharp drop in the growth rate of payments of interest, since the 1981 rate was only 10%, compared with the rates of between 50% and 35% recorded during the period 1977-1980 (see table 15).

As a result of the foregoing, debt servicing went down by 1.4% in 1981, when it represented 28% of exports of goods and services; the fact that this percentage was lower than in previous years was due to the postponement of outstanding commitments which was negotiated during the year.

Certain features of external public indebtedness have become more marked in recent years. Thus, the two main agents in the policy of external indebtedness were the central government and public enterprises, whose total balances at the end of each financial year were never less than 80% of total public indebtedness.

(d) *The effective real exchange rate*

The policy of maintaining a fixed exchange rate with regard to the United States dollar was continued in 1981. Since domestic inflation was higher than international inflation—as was reflected in the behaviour of relative prices—the real exchange rate index deteriorated with respect to the currencies of Bolivia's main trading partners. The index of the effective real exchange rate suffered serious deterioration which affected both exports and imports: thus, between 1980 and 1981 the effective real exchange rate for exports dropped by almost 25%, while that for imports went down by rather more than 22%, both of these declines being the severest in the whole decade (see table 16).

Table 15

BOLIVIA: EXTERNAL PUBLIC DEBT^a

(Millions of dollars)

	1977	1978	1979	1980	1981	Growth rates				
						1977	1978	1979	1980	1981
End-of-year balance	1 458	1 762	1 941	2 220	2 542	31.7	20.8	10.1	14.3	14.5
Amortization payments	101	271	144	122	102	40.2	168.3	-46.8	-15.2	-16.3
Interest and commissions	60	84	118	159	175	50.0	40.0	40.4	34.7	10.0
Debt servicing as a percentage of exports of goods and services	22	49	31	27	28					

Source: Central Bank of Bolivia.

^aDisbursed public and State-guaranteed private external debt.

² This item has the function of reconciling the difference between total income and payments and the final variations in the reserves.

4. Prices and wages

(a) Prices

The inflationary climate within which the Bolivian economy had been evolving since 1979 continued in 1981. Thus, the December-December consumer price index increased by a little over 25%, which was slightly more than in 1980 but considerably lower than the 45% registered in 1979 (close to half). Thus, the increase in domestic prices in 1981 was the second highest since the mid-1970s (see table 17).

The slight increase in inflationary pressures in 1981 observed when the December-December price index is compared with the previous year becomes an appreciable slackening when a comparison is made of the variations between annual averages, for the variation on these terms, which amounted to 47% in 1980, dropped to 32% in 1981. Both these rates are considerably higher than those for December to December because of the pronounced decline in the growth rate of prices which took place towards the end of 1981.

The consumer price index did not follow a definite trend during the year. After the sharp and abrupt rise of over 12% which took place in prices in January, there were six months of increases which fluctuated around a monthly average of 0.9%; in August, prices rose by 6%, but then they went down by 0.6% in the last four months of the year.

The performance of the price index during the year was conditioned mainly by the behaviour of the food component, which grew at a higher rate (almost 27%) than the December-December general index, this performance being due to increases of over 14% and 9% in January and August, respectively, followed by a drop of 3.2% in the last four months of the year.

The housing component of the price index, in contrast, was that which increased least (20% from December to December), representing a further symptom of the recessive situation affecting the economy, which usually has a particularly marked effect on construction and housing prices. The other subgroups of the index, clothing and miscellaneous expenses, rose by around 23%.

The wholesale price index rose rather more rapidly than consumer prices, since its December-December increase was 28%. Despite this, however, it showed a significant deceleration compared with 1979 and 1980, when it increased by around 43% and 35%, respectively (see table 17).

Table 16

BOLIVIA: EVOLUTION OF INDEXES OF EFFECTIVE REAL EXCHANGE RATE FOR EXPORTS AND IMPORTS^a

(1980 = 100)

Annual averages	Index of weighted real exchange rates for:	
	Exports	Imports
1970	90.8	96.8
1971	95.1	99.2
1972	105.5	111.0
1973	141.9	150.8
1974	101.7	108.1
1975	96.6	102.7
1976	102.8	108.4
1977	99.1	106.4
1978	102.8	110.3
1979	104.8	107.5
1980	100.0	100.0
1981	75.6	77.4

Fuente: Statistical Appendix.

^aThese indexes correspond to the indexes of the real exchange rate of the peso with respect to the currencies of Bolivia's main trading partners, weighted by the relative importance of the exports or imports to or from those countries.

Table 17

BOLIVIA: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981
Variation December to December						
Consumer price index	5.5	10.5	13.5	45.4	23.9	25.1
Foods	5.3	10.3	14.2	45.4	22.6	26.6
Wholesale price index ^a	11.4	9.5	18.6	43.5	35.2	27.9
Imported products	14.5	14.1	24.5	27.9	36.4	37.2
Domestic products						
Agricultural products	13.4	12.0	29.0	44.4	36.2	14.4
Manufactures	8.8	5.6	9.1	53.5	33.8	31.1
Variation between annual average						
Consumer price index	4.5	8.1	10.3	19.7	47.2	32.1
Food	2.4	8.2	10.0	18.6	47.5	35.2
Wholesale price index	6.6	10.2	15.6	23.9	49.3	35.5
Imported products	8.4	15.2	23.7	17.9	35.6	43.7
Domestic products						
Agricultural products	6.3	13.9	20.5	27.7	54.6	24.7
Manufactures	6.0	5.3	8.4	25.5	54.5	37.5

Source: National Statistical Institute (INE).

^aCalculated on the basis of the fourth quarter of the previous year.

Among wholesale prices, those which increased most were the prices of imported products (37%); the prices of domestic manufactured products rose by 31% (i.e., less than in 1979 and 1980), while agricultural goods increased by only a little over 14%, that is to say, considerably less than in the previous three years (see table 17).

Among the factors which helped to keep up the rate of inflation during the year, mention may be made of the persistence of a smaller but still significant fiscal deficit which it was necessary to finance, and the shortage of foreign exchange registered in the second half of the year, which forced businessmen to acquire foreign exchange on the parallel market at exchange rates considerably higher than the official one.

(b) Wages

The economic crisis, together with the highly inflationary nature of the previous three years, caused a sharp deterioration in purchasing power which culminated in the dramatic situation of 1981.

Thus, in 1981 wages were frozen and the only increases given were those corresponding to seniority. This meant that on average real wages went down by the extent that domestic prices went up (over 24%): a decline three times as great as the already considerable drop registered the year before. Thus, over the period 1979-1981 the purchasing power of real wages went down by one-third (see table 18).

In 1979, real wages had gone up in five sectors — mining, manufacturing, "other industries", construction and transport— although the only significant rises among these were in the first and fourth of these sectors; in 1980 wages only went up in the electricity and gas sector (8%). Finally, in 1981 remuneration went down in all branches of economic activity. If we analyse the last three years as a whole, it will be seen that the workers who suffered the sharpest drop in their purchasing power were those in commerce (-40%) and those in banking and services (-34%). These were closely followed by the workers in manufacturing, transport, petroleum and electricity and gas, who suffered declines of between 29% and 30%.

Table 18

BOLIVIA: EVOLUTION OF AVERAGE MONTHLY WAGES

	1978	1979	1980	1981 ^{ab}	Growth rates				
					1978	1979	1980	1981 ^{ab}	1979-1981
Nominal wages (pesos at current prices)									
Mining	2 597	3 179	4 400	4 400	1.3	22.4	38.4	-	19.2
Petroleum industry	8 911	10 040	14 660	14 660	38.6	12.6	46.0	-	18.1
Manufacturing	3 178	3 926	5 139	5 139	9.7	23.5	30.8	-	17.4
Other industries	3 449	4 249	5 856	5 856	2.0	23.1	37.8	-	19.3
Construction	2 943	4 024	5 358	5 358	9.9	36.7	33.1	-	22.1
Electricity and gas	4 869	5 025	7 987	7 987	15.2	3.2	58.9	-	17.9
Commerce	4 699	5 399	6 639	6 639	18.1	14.8	22.9	-	12.2
Banks	6 699	7 851	10 245	10 245	25.2	17.1	30.4	-	15.2
Transports	3 925	4 721	6 311	6 311	18.3	20.2	33.6	-	17.2
Services	2 929	3 300	4 456	4 456	7.1	12.6	35.0	-	15.0
Average wage	3 371	3 979	5 373	5 373	10.8	18.0	35.0	-	16.8
Real wages (pesos at 1976 prices)									
Mining	2 168	2 226	2 092	1 584	-8.5	2.7	-6.0	-24.3	-9.9
Petroleum industry	7 469	7 030	6 971	5 277	25.6	-5.8	-	-24.3	-10.9
Manufacturing	2 663	2 749	2 443	1 850	-	3.2	-11.1	-24.3	-11.4
Other industries	2 891	2 975	2 784	2 108	-7.5	2.9	-6.4	-24.3	-10.7
Construction	2 466	2 819	2 546	1 929	-	14.3	-9.6	-24.3	-7.9
Electricity and gas	4 081	3 519	3 798	2 875	4.4	-13.7	7.9	-24.3	-11.0
Commerce	3 940	3 780	3 157	2 390	7.1	-4.0	-16.4	-24.3	-15.3
Banks	5 615	5 497	4 871	3 688	13.4	-2.1	-11.3	-24.3	-13.1
Transports	3 290	3 306	3 001	2 272	7.2	0.4	-9.2	-24.3	-11.6
Services	2 455	2 311	2 119	1 604	-2.8	-5.8	-8.3	-24.3	-13.2
Average wage	2 826	2 786	2 555	1 933	0.4	-1.4	-8.2	-24.3	-11.9

Source: National Wages Council.

^a Does not include value of seniority bonus, which naturally varies for each worker.^b Preliminary figures.

Table 19

BOLIVIA: DISTRIBUTION OF GROSS WAGES AND SALARIES

	Percentage share of total wages and salaries				
	1975	1976	1977	1978	1979
Wage-earning population					
Lowest-paid 40% of the population	22.1	21.6	20.4	19.4	19.8
Middle-income 40% of the population	36.9	35.2	35.4	34.6	35.4
Highest-paid 20% of the population	41.0	43.2	44.2	46.0	44.8
Highest-paid 10% of the population	(26.5)	(28.7)	(29.4)	(30.9)	(29.9)

Source: Central Bank of Bolivia, Indicadores económicos de corto plazo, octubre de 1981.

This sharp drop had negative effects not only from the point of view of social stability, but also from the point of view of the process of economic development itself, since they negatively affected national expenditure and saving.

According to the available information on the distribution of wages and salaries,³ which unfortunately only goes up to 1979, between 1975 and 1979 there was a progressive process of concentration of income as between the lowest and highest segments. Thus, whereas in 1975 the poorest 40% of the wage-earning population received 22% of total wages, four years later, i.e., in 1979, they only received 20%. In contrast, the highest-paid 10% of the population saw their share of total wages and salaries increase over the same period from 26.5% to 30%. The 40% of the population in the middle wage groups, for its part, remained more or less stable during these years (see table 19).

5. Monetary and fiscal policy

(a) *Evolution of the means of payment*

Compared with the year before, there was a sharp slackening in the growth of the means of payment in 1981, since they grew by only 20% after having increased by over 42% the year before. This slower rate of expansion of the money supply was connected with the lower rate of inflation and the smaller fiscal deficit.

The two components of the money supply grew considerably less than in 1980. The growth rate of money outside banks dropped from 31% to a little under 15% —the lowest figure in the last four years— while current account deposits, which had increased by the unusually large amount of 69% in 1980, grew by only 29% in 1981 (see table 20).

The increase in the money supply was due to a rise of 9% in the factors of expansion: only one-third of the 1980 increase and approximately half that of 1979. The main factor promoting the increase in the means of payment was domestic credit, since the international reserves suffered a sharp drop in the course of the year. The decline in the reserves in 1980 had been twice that of the previous year, and in 1981 they again dropped by a similar proportion. Thus, rather than acting as a factor of expansion of the money supply, foreign assets played the role of a factor of contraction.

In contrast, domestic credit increased by over 27% but although this is quite a high rate, it too was less than in the previous three years. Of the total amount of domestic credit, the Government received 20% more resources in 1981 than the year before: a growth rate which is considerably less than the 66% registered in 1978 and 1980 and the 100% rise registered in 1979.

Between 1979 and 1981, according to information provided by the Central Bank itself, the amount of financing provided to the central government was much larger and grew more rapidly than that made available to other official entities. Thus, for example, in 1979 the credit received by the central government was seven times greater than that obtained the year before, whereas credit received by the rest of the public sector barely changed between 1978 and 1979. A similar tendency was observed in 1980, when the amount of resources received by the central government doubled, whereas those obtained by the rest of the public sector only increased by 51%. Finally, in 1981 there was a considerable slackening in both these growth rates, which amounted to 40% and 7% respectively. To sum up, between 1979 and 1981 the means of payment placed at the disposal of the central government increased at the rate of 236% per year, while those of the other official entities only grew at the rate of 21% per year.

In contrast with the foregoing, however, the financing received by the private sector in 1981 rose by 30%, which was the highest growth rate since 1979 and was similar to that of 1978.

Between 1970 and 1981, financing granted by the banking system to the private sector was concentrated basically in three sectors —commerce, industry and agriculture and stock-raising— which absorbed 70% to 90% of the total. A surprisingly small proportion of total financing has traditionally been received by mining (3% to 7% of the total), even though this is one of the most

³See Central Bank of Bolivia, *Indicadores económicos de corto plazo*, October 1981.

important sectors in the economic system. This situation may partly be explained by the fact that short-term operations predominate in the banking system, whereas in mining investments have long lead times, and this involves greater risks.

The factors of contraction of the money supply decreased by 8%: the first time this had happened since 1973. Among them, quasi-money continued the rapid growth rate begun in 1980, while savings and time deposits, which had grown by 33% in that year, rose by more than 40% in 1981. In 1979 and 1981, current account deposits grew considerably more than time deposits, but in 1980 the situation was exactly the contrary. The other factor explaining the reduction in the factors of absorption of money was the behaviour of long-term external loans, which, after having fallen by over 18% in 1980, rose by nearly 26% in 1981: a rate of change which was very far from those registered in the period 1978-1979 (see table 20).

As already noted, the M_1 money supply grew in nominal terms by 20%, whereas the M_2 money supply rose by 28%, likewise in current values. If the sharp price increases registered between December and December are taken into account, however (see the corresponding section of this chapter), then the real variation was negative, thus resulting in a contraction in the amount of money circulating in the economy.

There was also an increase in interest rates during 1981, related with the contraction in the money supply. The effective rates of interest (including taxes and commissions) on credits granted to commerce and private individuals and to the productive sectors came to 32%, which represents an increase of 4 and 7 points over the 1980 levels (see table 21). When the variation between the annual averages of the consumer price index (32%) is taken into account, however, it is seen that the active interest rates and those on deposits in savings banks were negative.

Another point worthy to note is the strong process of concentration of credit which has taken place, at least since 1979. Since that year, three departments —La Paz, Santa Cruz and Cochabamba— have received close to 85% of the total financing provided by the banking system. In contrast, it is very striking to note that in 1981 the credit received by Beni and Pando went down by almost 83% compared with the year before.

Table 20
BOLIVIA: MONETARY BALANCE

	Balance at end of year (millions of pesos)				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Money	8 830	10 302	14 694	17 586	14.2	16.6	42.6	19.6
Currency outside bank	5 810	7 211	9 461	10 852	19.4	24.1	31.2	14.7
Demand deposits	3 020	3 091	5 233	6 734	0.9	2.3	69.2	28.6
Factors of expansion	15 588	18 714	23 675	26 846	10.5	20.0	26.5	9.1
Foreign assets (net)	453	-2 560	-5 196	-10 950				
Domestic credit	15 135	21 274	28 871	36 796	35.2	40.5	35.7	27.4
Government (net)	3 927	7 882	13 159	16 711	65.7	100.7	66.9	26.9
Private sector	9 746	12 241	14 350	18 546	32.3	25.6	17.2	29.2
Other credit	1 461	1 151	1 363	1 540	0.4	-21.2	18.4	12.9
Factors of absorption	6 758	8 412	8 981	8 260	8.1	24.4	6.7	-8.0
Quasi-money	5 650	6 328	8 430	11 831	13.9	12.0	33.2	40.3
Long-term foreign borrowing	802	2 422	1 974	2 484	335.8	201.9	-18.4	25.8
Counterpart funds	61	37	27	14	-27.3	-39.3	-27.0	-48.1
Others items (net)	245	-375	-1 450	-6 069				

Source: 1977-1979: International Monetary Fund, *International Financial Statistics*, August 1982.

^aPreliminary figures.

Table 21

BOLIVIA: STRUCTURE OF INTEREST RATES

(Percentages)

	1974	1975	1976	1977	1978	1979	1980	1981
Loans								
Commerce and private individuals								
Nominal rate	15.0	15.0	15.0	15.0	15.0	19.0	20.8	27.0
Effective rate	25.0	25.0	25.0	25.0	25.0	26.0	27.8	32.0
Productive sectors								
Nominal rate	15.0	15.0	15.0	16.0	16.0	19.0	20.8	27.0
Effective rate	19.0	19.0	19.0	19.0	19.0	23.0	24.8	32.0
Deposits								
Savings Bank deposits	10.0	10.0	10.0	10.0	10.0	15.0	17.0	22.0
Fixed-term deposits in national currency ^a	-	11.2	11.2	11.2	11.2	13.8	18.0 ^b	23.0 ^b
Fixed-term deposits in foreign currency	-	9.0 ^b	9.0 ^c	9.0 ^c	9.0 ^c	9.0 ^c	11.0 ^b	20.0 ^b

Source: Central Bank of Bolivia.

^aMean interest rate between maximum and minimum.^bMinimum value registered.^cMaximum value registered.**(b) Fiscal income and expenditure**

In 1981, income increased by close to 18%, while total expenditure rose by a little over 13%. This meant that compared with what happened in 1979 and 1980, when the deficit grew by 121% and 46% respectively, the growth rate of the latter dropped sharply to only 7.5%. This marked slackening was due to the austerity policy followed by the Government since the beginning of the year, which was subsequently reasserted in the second half of the year through the adoption of a set of measures aimed at reducing public expenditure.

As proportions of the gross domestic product, government income and expenditure showed significant reductions from 8.7% to 7.8% for income and from 15.9% to 13.8% for expenditure: a tendency which had already been observed in previous years, especially in the case of income, and which indicates the insufficient flexibility of the tax system to adapt itself to the evolution of the product (see table 22).

Even in 1979, when income in terms of current pesos went down, it represented a higher proportion of the product than in 1981. In the latter year, the increase in income was markedly lower than that in domestic prices, so that in real terms income went down.

Had it not been for the extraordinary increase registered in income from petroleum and gas royalties, which went up by a factor of 49% in the last two years, government income would not have increased at all or would have done so only very slightly. Revenue from internal taxes rose by 14%, which was much less than in 1980; customs revenue rose by 23%, which was practically the same as the year before, and royalties from mining went down by half. Only the extra taxes on exports registered a sharp recovery (64%) after the abrupt fall suffered the year before, but their importance compared with other revenue is not very great.

After the sharp rises registered in the previous two years (30% and 43%, respectively), public expenditure only rose by 13% in 1981. As in the case of fiscal income, this meant that real expenditure went down even more than income when the rate of inflation is taken into account.

All the items making up government expenditure grew much more slowly than in previous years. Thus, personal services (wages and salaries) and non-personal services expanded by 14%

and 6% respectively, which is an enormous contrast with the increases of around 60% in both cases registered in 1980. There was likewise a marked slackening in purchases of materials and supplies, which grew considerably less than in 1980, although between 1979 and 1981 they trebled. Purchases of fixed and financial assets and payments in respect of the issued public debt also increased, but by smaller amounts. Thus, after having grown by over 300% during 1980, financial assets only increased by 10% in 1981. Similarly, after amortization and interest payments had risen 57% in 1979 and had almost doubled in 1980, their 1981 growth rate was barely 16%.

As a result of the higher growth rate of income than of total expenditure, the fiscal deficit increased by less than 8%, but even so the tendency of previous years persisted and the Central Bank had to continue to finance an increasing proportion of this deficit.

Table 22

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Millions of pesos				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Current income	8 540	8 384	11 793	13 885	11.7	-1.8	40.6	17.7
Inland revenue	3 165	3 621	4 459	5 077	15.2	14.4	23.1	13.8
Custom revenue	1 960	2 064	2 564	3 150	15.7	5.3	24.2	22.8
Additional export tax	470	807	127	208	-12.1	71.7	-84.2	63.7
Mining royalties	1 545	1 333	1 771	889	22.8	-13.7	32.8	-49.8
Petroleum and gas royalties	919	80	1 852	3 957	0.1	-91.2	1 315.0	113.6
Other income	481	480	1 999	604	-1.4	-	316.4	-69.7
Current expenditure	11 542	15 035	21 521	24 347	5.3	30.2	43.1	13.1
Personal services	4 704	5 948	9 706	11 132	23.9	26.4	63.1	14.6
Non-personal services	513	587	946	1 005	41.3	14.4	61.1	6.2
Materials and supplies	684	692	1 512	2 120	20.4	1.1	118.4	40.2
Fixed and financial assets	256	317	1 345	1 477	-12.6	23.8	324.2	9.8
Public debt	1 165	1 831	3 817	4 432	25.9	57.1	108.4	16.1
Transfers and contributions	3 211	3 424	2 552	2 017	1.8	6.6	-25.4	-20.9
Other expenditure	1 009	2 236	1 642	2 162	-45.6	21.6	-26.5	31.6
Deficit	-3 002	-6 651	-9 728	-10 461	-9.3	121.5	46.2	7.5
As percentages of the gross domestic product								
Current income	11.6	9.1	8.7	7.8 ^c				
Total expenditure	15.0	16.3	15.9	13.8 ^c				

Source: Central Bank of Bolivia.

^aPreliminary figures.

^bEstimates.

BRAZIL

1. Recent economic trends: Introduction and summary

In 1981, for the first time in several decades, the Brazilian economy experienced a severe contraction, which was to a large extent linked to the stabilization policy begun in the second half of 1980, when the worsening of the inflationary process and the external imbalance brought about changes in the criteria for formulating and applying economic policy. In contrast, with previous years, in 1981 the goals of reducing inflation and improving balance of payments received absolute priority, and the achievement of minimum goals of growth of the economy and employment was no longer taken as the fundamental objective.

At the same time, external circumstances were very unfavourable, since they were affected by the recession in the industrialized countries' economies, the intensification of protectionism in those countries, the loss of dynamism in world trade, the drop in commodity prices, the rise of interest rates in international financial markets and the rise of the dollar in relation to other main currencies.

As a result of these different factors, the gross domestic product fell approximately 2% in 1980, which in per capita terms meant a reduction of more than 4%. As a result of the marked deterioration in the terms of trade for the fourth consecutive year, real income showed an even greater reduction in both global (3.3%) and per capita terms (5.6%). In these circumstances, the rate of open unemployment in urban areas rose from 6.3% in 1980 to nearly 8% in 1981, thus contributing to the decline in living standards, particularly in urban industrial areas (see table 1 and figure 1).

Inflation dropped from 110% in 1980 to 95% in 1981. However, when the data are analysed on a quarterly basis a much sharper downward trend can be observed, since the price variation went from an annual rate of 126% in the final quarter of 1980 to 69% in the fourth quarter of 1981.¹

At the same time, there was a substantial improvement in the area of external transactions, with a positive balance in merchandise trade being recorded for the first time since 1970, while the current account deficit was reduced from US\$ 12 900 million in 1980 to a little more than US\$ 11 700 million in 1981. Thus the current account deficit represented only about 46% of total exports after having exceeded 50% of their value in six of the seven preceding years. The magnitude of the internal effort realized in order to improve the balance-of-payments current account position becomes even more obvious when one considers the negative effects of the deterioration in the terms of trade and of neoprotectionism, as well as the larger interest payments resulting from the rise in interest rates on international markets. In addition, a significant increase in the inflow of long-term capital made it possible to add US\$ 845 million to the international reserves, which had been considerably reduced in the two preceding years and had fallen to critical levels.

In line with the high priority given to the fight against inflation, monetary policy was particularly strict, especially during the first half of the year, giving continuity to actions begun in the second half of the previous year. Strict ceilings on growth of the monetary base and means of payment were established, and to this end rigorous limits were imposed on the expansion of domestic credit, except for preferential loans for agriculture, exports, the fuel alcohol programme (PROALCOOL) and credit granted on the basis of procurement of external resources.

¹In the first quarter of 1981, inflation was equivalent to a yearly rate of 137%.

In contrast, interest rates were freed, except for those in respect of preferential credits, and this, along with the heavy sales of Treasury bonds effected for fiscal purposes and for control of the means of payment, produced a significant rise in such rates. The external resources procured by the banking system did not succeed in attenuating the rise in internal interest rates, because of the combined effect of high external interest rates and the faster rate of devaluation of the cruzeiro.

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (billions of 1970 dollars)	84.2	91.7	96.0	101.8	108.3	117.0	114.7
Population (millions of inhabitants)	108.4	111.1	113.9	116.6	119.5	122.3	125.2
Per capita gross domestic product (1970 dollars)	777	826	843	873	907	956	916
Growth rates							
B. Short-run economic indicators							
Gross domestic product	5.7	9.0	4.7	6.0	6.4	8.0	-1.9
Per capita gross domestic product	3.1	6.3	2.1	3.5	3.9	5.5	-4.2
Real gross domestic income ^b	5.4	9.5	5.1	5.3	5.9	7.0	-3.3
Terms of trade (goods and services)	-5.4	8.4	7.5	-11.7	-7.4	-13.5	-14.2
Current value of exports of goods and services	10.6	14.9	19.6	5.3	21.0	30.8	16.8
Current value of imports of goods and services	-2.5	-2.8	-0.9	12.8	30.3	27.9	-2.3
Consumer prices^c							
December - December	31.2	44.8	43.1	38.1	76.0	86.3	100.6
Variation between annual averages	29.0	41.9	43.7	38.6	52.7	82.8	105.6
General price index (domestic availability)^d							
December - December	29.4	46.3	38.8	40.8	77.2	110.2	95.2
Variation between annual averages	27.9	41.3	42.7	38.7	53.9	100.2	109.9
Money	42.8	37.2	37.5	42.2	73.6	70.2	73.0
Wages and salaries ^e	...	...	50.3	50.4	57.7	92.5	117.1
Rate of urban unemployment ^f	...	...	...	...	...	6.3	7.9
Current income of government	24.2	74.2	46.1	43.8	46.0	139.2	85.5
Total expenditure of government	...	...	...	...	...	162.9	84.0
Fiscal surplus/total expenditure of government ^g	...	...	...	...	24.1	32.2	31.7
Millions of dollars							
C. External sector							
Trade balance (good and services)	-4 978	-3 959	-1 675	-2 875	-5 033	-5 944	-1 624
Balance on current account	-6 994	-6 551	-5 115	-7 039	-10 482	-12 848	-11 717
Variation in international reserves	-1 237	2 509	710	4 640	-2 860	-3 322	845
Total external debt	21 171	25 985	32 037	43 511	49 904	53 847	61 400

Source: ECLA, on the basis of official data.

^a Preliminary figures.

^b Gross domestic product plus terms-of-trade effect.

^c Consumer price index for Rio de Janeiro.

^d The general price index is a weighted average of the wholesale price index (60%), the cost-of-living index for Rio de Janeiro (30%), and the cost of construction in that City (10%).

^e Average nominal wage in industry.

^f Percentage.

^g Weighted average of rates of unemployment in Rio de Janeiro, São Paulo, Belo Horizonte and Porto Alegre.

Even so, in the end it did not prove possible to reduce credit to the public sector, and loans for priority activities expanded more than had been foreseen. In practice, the monetary policy was made more flexible in the second half of the year in response to pressure from business sectors affected by it and the stubborn fiscal deficit.

Fiscal policy also sought to have a restrictive effect, and tried to balance the public finances through reduction of spending.

To this end, measures were adopted to contain consumer spending and an attempt was made to reduce the volume of subsidies granted through the monetary authority² by raising the prices of petroleum products so as to prevent a deficit on that account similar to that of the year before. However, at the same time, the fiscal subsidies to exports of manufactures were restored.³ Similarly, substantial losses occurred in the marketing of some commodities (chiefly coffee, cocoa and sugar) because of the drop in international prices, and the subsidies granted through the interest rates on credits to the priority activities mentioned above were also greater. Furthermore, despite the fact that prices and tariffs of public companies and institutions were readjusted with a view to improving their profitability, the demands on the Treasury for larger financial transfers to cover the deficits of those entities⁴ had a negative effect on the objectives of curbing fiscal spending. Moreover, there were obvious difficulties in realizing the objective of reducing investment programmes, which clearly showed up, in addition to the rigidities inherent in prior commitments, the limitations of the administrative control mechanisms introduced two years before⁵ and the need for the programming of medium-term public investments.

On the other hand, the decrease in the level of domestic economic activity meant a drop in tax collection in real terms, and in the final analysis this resulted in the persistence of the deficit in relation to total spending, although this deficit went down as a proportion of the gross domestic product.

With regard to the external sector, economic policy was oriented towards strengthening the promotion of exports, curbing imports and procuring the long-term external resources needed to prevent a new drop in the country's international reserves. To this effect, the rate of exchange varied in line with inflation: the 1980 experiment of setting in advance the annual variation in the exchange rate was discarded. Similarly, in April the Government restored fiscal subsidies for exports of manufactures,⁶ which had begun to flag in the early months of the year as a result of the adverse external conditions mentioned above. For the purpose of promoting a better external trade balance, restrictions on imports were maintained and the rate of the tax on financial operations (IOF), which has an influence on the purchase of foreign exchange for imports, was raised. However, the deterioration of the terms of trade meant that purchasing power of exports improved by only 5.5%, despite the fact that their volume increased by 25%. Furthermore, in 1981 an extra US\$ 2 600 million had to be paid in interest on the external debt. This increase was caused chiefly by the rise in interest rates on international markets and, to a lesser extent, by the bigger spread over the basic reference rates (LIBOR and prime rate)⁷ applied to Brazil.

The economic policy applied in 1981 also included a series of wage and price measures. Price controls were eliminated, except for those on consumer goods of prime necessity, and wage legislation was modified to reduce increases in the higher wages, while the lowest wages were adjusted according to the national consumer price index, leaving aside the additional 10% granted since November 1979.

²These subsidies are granted through "open accounts" in the monetary budget, which in reality constitute a form of public expenditure.

³These subsidies involve the return of part of the taxes on industrial products (IPI).

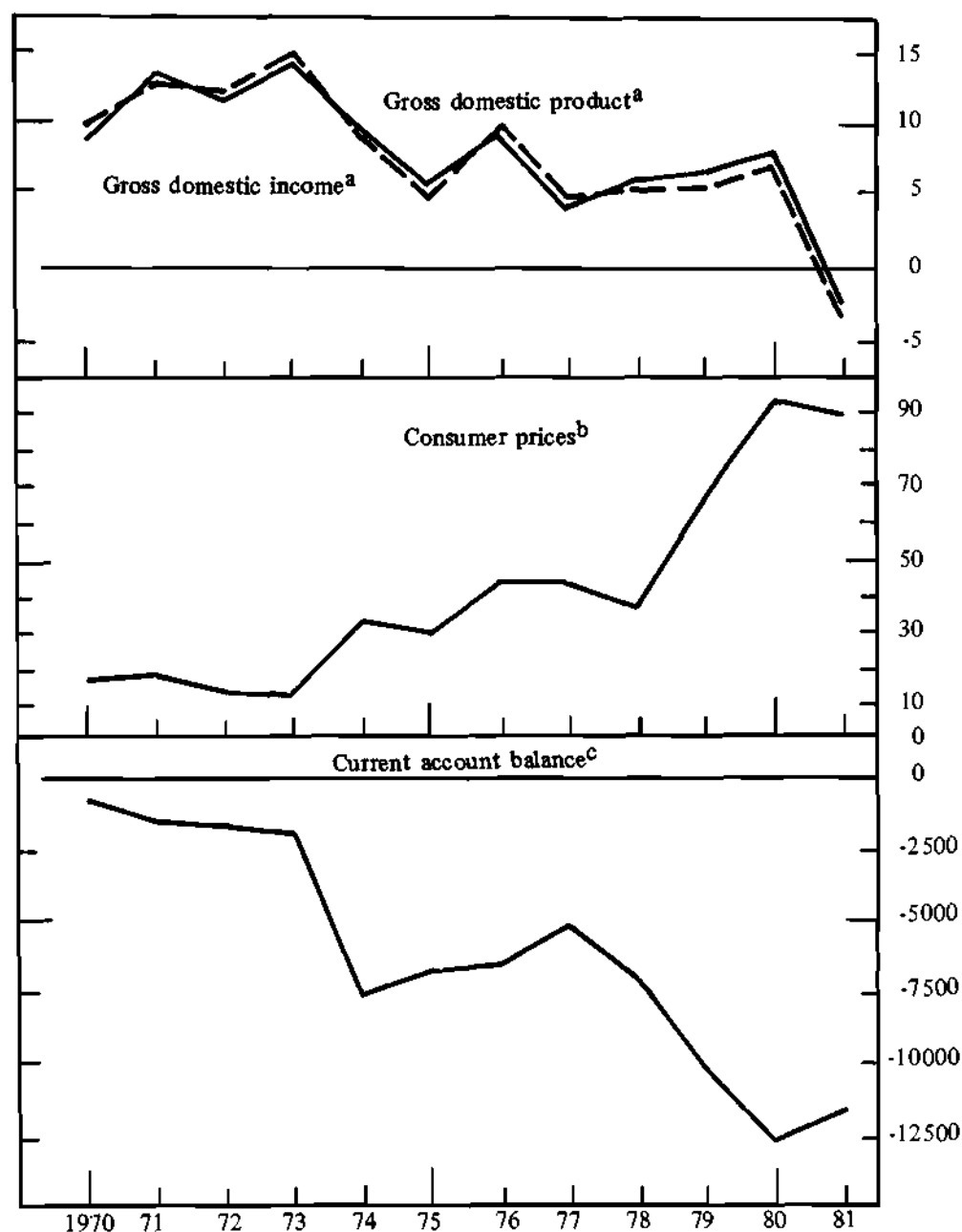
⁴The most serious situation was that of the National Social Security Institute (INPS).

⁵In 1980 a Special Ministry for the Control of State Enterprises (SEST) was set up as a division of the Ministry of Planning of the Republic (SEPLAN-PR).

⁶These had been eliminated in December 1979 at the time of the maxidevaluation of the cruzeiro (30%). This incentive was thus now added to that already being granted through credits at preferential rates.

⁷London Inter-Bank Offer Rate (LIBOR) and rate for first-class borrowers (prime rate) in the United States.

Figure 1
BRAZIL: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation from December to December. Up to 1979 this corresponds to the consumer price index for Rio de Janeiro and from 1980 onwards to the consumer price index for the entire country.

^cMillions of dollars.

In sum, the economic policy measures applied in 1981 caused a contraction in domestic demand but stimulated exports, the expansion of which partly offset the drop in economic activity, which in turn was affected by the reduction of imports. The substantial increase in interest rates discouraged investment and the purchase of consumer durables and contributed to the reduction in stock levels, which had increased the previous year. To this was added the reduction in public expenditure in real terms.

2. Trends in economic activity

(a) Total supply and demand

In 1981 total supply decreased by 2.4%: something which had not occurred since 1942. This drop was due to the contraction of the gross domestic product by about 2%, plus the nearly 11% reduction in the volume of imports of goods and services. There was thus a new reduction of the import coefficient, which fell to its lowest level in the last ten years (see table 2).

As had happened in 1980, the behaviour of the coefficient of imports of goods and services contrasted with the exceptional expansion of the volume of exports, which came to 25%, thus exceeding both the extremely high rate recorded in 1980 (22%) and the 9% average recorded during the preceding 10 years. Exports consequently represented the only dynamic component in global demand and continued to be a characteristic feature of the prevailing style of development. On the other hand, the domestic demand components showed substantial reductions: consumption fell 3.3%, whereas gross fixed investment went down 7.5% (see table 2).

(b) Evolution of the main sectors

With the exception of agriculture and electricity, gas and water, most activities developed unfavourably in 1981, with a particularly significant drop (-6.4%) in manufacturing. This decrease was the chief cause of the drop in the gross domestic product, over 26% of the latter decline being

Table 2
BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	115 669	124 571	121 519	106.7	105.9	6.7	7.7	-2.4
Gross domestic product at market prices	108 299	116 963	114 741	100.0	100.0	6.4	8.0	-1.9
Imports of goods and services ^b	7 370	7 608	6 778	6.7	5.9	10.6	3.2	-10.9
Total demand	115 669	124 571	121 519	106.7	105.9	6.7	7.7	-2.4
Domestic demand	109 001	116 432	111 416	100.8	97.1	6.4	6.8	-4.3
Gross domestic investment	...	...	...	25.2	...	...	...	...
Gross fixed investment	25 777	27 581	25 513	22.9	22.2	4.2	7.0	-7.5
Changes in stocks	...	...	...	2.4	...	...	...	...
Total consumption	83 224 ^c	88 851 ^c	85 903 ^c	75.6	74.9 ^c	7.1 ^c	6.8 ^c	-3.3 ^c
General government	10 373	10 560	10 348	9.9	9.0	9.0	1.8	-2.0
Private	72 851 ^c	78 291 ^c	75 555 ^c	65.7	65.9 ^c	7.3 ^c	5.1 ^c	-3.5 ^c
Exports of goods and services ^b	6 668	8 139	10 103	5.9	8.8	11.0	22.1	24.1

Source: 1970-1980: ECLA calculations on the basis of figures supplied by the National Accounts Centre of the Getulio Vargas Foundation; 1981: ECLA estimates on the basis of figures from the same source, supplemented with data from the Central Bank of Brazil.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for the purpose.

^cChanges in stocks are included in private consumption.

attributable to it. Construction also registered a drop of more than 4%. The fall in these two sectors was reflected in commerce, which showed a decrease of 3%, and in the sector of transport, storage and communications (see table 3).

(i) *The agricultural sector.* In 1981 the agricultural sector showed a very high growth rate of close to 7%, a somewhat higher rate than the one recorded the year before. However, contrary to what had occurred in 1980, that rate was obtained because of the extraordinary recovery of the coffee harvest, which contrasted with the meagre results of most of the other crops. Thus, while coffee production rose 88%, that of the other crops showed a decrease of nearly 1%. Livestock production, however, developed positively, growing by nearly 6% and thus recovering the dynamism it had lost during the previous two years (see table 4).

The negative performance of most of the crops was partly due to climatic problems, such as the frosts in the centre-south region and the traditional droughts in the northeast, but also partly reflected the effects of the Governments's policy of reducing preferential credit to medium-sized and large producers at subsidized interest rates. This charge offset to a certain extent the incentives granted through the fixing of minimum prices, which in many cases were higher than the average market prices of the products traded at the beginning of the harvest.

The coffee harvest amounted to 3.8 million metric tons and was one of the largest in history. This exceptional result was basically due to the effects of the measures designed to recover the country's coffee production after the 1975 frost, which destroyed 1.5 million plants, and it showed that the harvest had not been affected by the frosts which occurred in the middle of the year, although these could nevertheless seriously affect the following year's crop.

In addition to the excellent coffee harvest, the bean, sugar cane and orange crops also turned in a favourable performance.

Table 3

BRAZIL: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	92 309	99 694	97 800	100.0	100.0	6.4	8.0	-1.9
Goods	41 197	44 293	42 622	45.2	44.7	6.0	7.5	-3.8
Agriculture, hunting, forestry and fishing	6 804	7 232	7 724	9.8	8.1	5.0	6.3	6.8
Mining and quarrying	798	899	901	0.8	0.9	10.0	12.6	0.2
Manufacturing	27 427	29 511	27 623	28.9	29.0	6.7	7.6	-6.4
Construction	6 168	6 651	6 374	5.7	6.7	3.5	7.8	-4.2
Basic services	8 609	9 539	9 615	7.8	10.1	11.1	10.8	0.8
Electricity, gas and water	2 870	3 180	3 288	2.4	3.5	12.1	10.8	3.4
Transport, storage and communications	5 739	6 359	6 327	5.4	6.6	10.6	10.8	-0.5
Other services	...	...	...	47.0	45.2	...	...	...
Wholesale and retail trade, restaurants and hotels ^c	18 735	20 234	19 627	20.8	20.5	6.3	8.0	-3.0
Financial institutions, insurance, real estate and business services	...	...	...	26.2	24.7	...	...	...
Community, social and personal services	...	...	...			...	...	...

Source: ECLA calculation on the basis of figures supplied by the National Accounts Centre of the Getulio Vargas Foundations.

^a Preliminary figures.

^b As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^c Including financial institutions, insurance and real estate, except ownership of dwellings.

Table 4

BRAZIL: AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates			
	1978	1979	1980	1981	1978	1979	1980	1981
Cotton	1 571	1 636	1 673	1 730	-17.5	4.1	2.3	3.4
Peanuts	325	435	483	355	0.3	40.0	6.2	-26.5
Rice	7 242	7 589	9 748	8 261	-19.0	4.8	28.4	-15.3
Bananas ^a	412	409	449	446	9.5	-0.7	10.5	-0.6
Potatoes	2 015	2 149	1 946	1 911	6.3	6.7	-9.4	-1.8
Cocoa	284	336	319	304	13.6	18.3	-32.1	-4.6
Sugar cane	129 223	139 337	146 064	153 858	7.5	7.8	5.0	5.3
Coffee	2 451	2 565	1 996	3 755	28.0	4.6	-22.2	88.1
Beans	2 188	2 174	1 969	2 339	-4.1	-6.6	-9.4	18.8
Oranges ^b	39 691	49 408	54 340	57 149	9.1	26.4	10.0	5.2
Maize	13 533	16 308	20 373	21 098	-29.7	20.5	24.9	3.6
Soya	9 535	10 235	15 153	14 978	-23.8	7.3	48.1	-1.2
Wheat	2 677	2 926	2 708		29.6	9.3	-9.7	-18.5
Crop-farming production					-7.0	6.9	9.3	7.5
Crop-farming production (excluding coffee)					-9.8	7.2	12.5	-0.9
Livestock production					9.7	-4.7	1.4	5.8
Total agricultural production					-1.7	3.2	6.3	6.8

Source: Agricultural Studies Centre of the Getulio Vargas Foundation.

^aMillions of hands.

^bMillions of units.

Despite the damage caused by the lateness of the rain in the northeast, bean production increased 19% after three years of continual decreases and thus exceeded the volume produced in 1977. It was sufficient for supplying the internal market, although in that market high prices still prevailed as a result of the very bad harvest of the year before.

Sugar cane production rose for the sixth consecutive year and showed an increase of 5%, similar to that of 1980. This development was directly linked to the security and encouragement provided by the National Alcohol Programme, although in 1981 the producers insistently demanded better prices. Part of the expansion was due to increased yields, but another chief cause was the enlargement of the area used for cultivation of sugar cane. This expansion, carried out in many cases in highly fertile zones, has displaced other crops, especially food crops, and has at the same time fostered concentration of rural property in the medium term.⁸

Orange production continued the rapid growth it has been showing since the mid-1970s, attaining in 1981 a harvest of 57 000 million units. Thanks to that exceptional development, in a few years the country has attained an outstanding position among world exporters of concentrated orange juice, and in 1981 the value of orange juice exports rose to US\$ 660 million: nearly double the figure for the previous year. This enormous increase was decisively influenced by the favourable international price attained by orange juice in 1981, as a result of the severe frosts that affected the crops in Florida and California, which also facilitated the liquidation of stocks held by Brazilian producers.

During 1981 both maize and cotton production increased by approximately 3.5%. The increase in the maize harvest was influenced by the improvement in prices received by the farmers, whereas that of cotton was due largely to the favourable climatic conditions to its development.

⁸See notes on Brazil in CEPAL, Economic Survey of Latin America, 1979 and 1980.

Among the crops which showed decreases, soya production went down by a little over 1% after having recorded an unprecedented harvest of 15.2 million tons the year before. This drop was entirely due to the reduction of the sown area in Paraná and Rio Grande do Sul, which was partially offset by an increase in yield caused by favourable climatic and plant health conditions.

In contrast, the reduction of subsidies granted to wheat producers,⁹ the frosts in Paraná and the lateness of the rains in Rio Grande do Sul were decisive factors in the 19% drop recorded in the harvest of this grain, which is the agricultural product having the greatest share in imports. Other crops whose production decreased substantially were rice (-15%), peanuts (-27%) and, to a lesser extent, cocoa (-5%).

After the poor results recorded in the two previous years, cattle production rose at a satisfactory rate of close to 6%. Although cattle slaughtering increased by only 1% and that of pigs 3%, there was a big increase in the poultry slaughtering (14%). However, there was a substantial reduction in domestic consumption, despite the fact that meat prices increased less than the consumer price index for food products. This contraction in domestic consumption and the incentives granted to exports made it possible for external sales of chicken to increase by 90% and exports of frozen and processed beef to increase by 700% and 28%, respectively. Pork sales abroad, however, continued to be affected by the sanitary problems encountered for several years past.

Finally, milk production increased by 9%, chiefly due to the good supply of pasturage and the partial change from beef stock to dairy stock. The readjustment of prices in the first half of the year also encouraged an increase in production. However, in the second half of the year prices decreased in real terms due to the production surpluses caused by the drop in demand.

From the point of view of rural capitalization, the financial factors mentioned above, which involved a relative decrease in the volume of credit and an increase in the cost of financing, together with the unfavourable development of the prices of agricultural products in relation to those of industrial products, had an influence in the sharp drop in demand for tractors and agricultural machinery. Purchases of tractors on the internal market were 45% less than in 1980 and amounted to only 39 100 units, a very low figure if account is taken of the natural attrition of the country's fleet, estimated at between 420 000 and 450 000 tractors.

In addition, during the year severe drops were recorded in the apparent consumption of pesticides (-39%) and fertilizers (-35%), although in the latter case there had been a substantial accumulation of stock in late 1980 in anticipation of an increase in prices and interest rates.

(ii) *Mining.* After growing very rapidly in the three preceding years, mining production stagnated almost completely in 1981 (see table 3). This was basically due to the fact that the substantial increase in petroleum extraction was offset by the drop in iron and manganese mining as well as that of non-metallic minerals (see table 5).

The efforts of PETROBRAS in petroleum exploration and development¹⁰ resulted in an increase of slightly more than 17% in crude oil production and an increase of 8% in probable reserves, which at the end of December amounted to 1 440 million barrels. As in previous years, production from offshore deposits recorded a greater expansion (34%) than that of deposits located on land (6%), so that offshore production came to represent 47% of the total output of 12.4 million cubic metres.¹¹ Natural gas production, for its part, increased by 13% to 2 500 million cubic metres.

On the other hand, lesser demand by the national iron and steel industry contributed to the 4% drop in iron ore extraction. The volume of this mineral exported, however, increased by 8%. The Vale do Rio Doce Company produced 54 million tons, that is, 50% of the country's production, and in conjunction with its associated enterprises it exported 64 million tons, or three-quarters of the total exported by the country.

⁹The financing of the "basic cost value" to medium-sized and large producers was fixed at 80% and 60%, respectively.

¹⁰During 1981, PETROBRAS drilled 685 wells totalling more than one million metres, while the enterprises working under risk contract drilled 15 wells measuring a total of 90 000 metres.

¹¹Equivalent to an average of 213 000 barrels per day.

Table 5
BRAZIL: MINING PRODUCTION

	Thousands of tons				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Iron ore	84 980	96 112	114 692	110 000	13.1	19.3	-4.1
Bauxite	1 401	2 160	4 696	5 000	54.2	117.4	6.5
Alumina	352	449	493	558	27.5	9.8	13.2
Primary aluminium	186	238	261	256	27.9	9.7	-1.9
Manganese ore	2 744	2 809	2 704	2 100	2.4	-3.7	-22.3
Zinc ore ^b	59	98	80	80	66.1	83.3	0.9
Primary zinc	56	63	78	92	12.5	23.8	17.9
Cassiterite ^b	6	7	7	8	16.7	-	14.3
Primary tin	9	10	9	7	11.1	-10.0	-22.2
Nickel ore ^b	4	3	6	6	-25.0	100.0	0.0
Nickel metal	2	2	3	2	0.0	50.0	-33.3
Petroleum ^c	58.5	60.4	66.4	77.9	3.3	9.9	17.3

Source: Ministry of Mines and Energy, Department of National Mining production (DNPM).

^a Preliminary figures.

^b In metal content.

^c Millions of barrels.

The internal recession and the drop in external demand affected manganese production, which decreased by approximately 20%. Indústria e Comércio de Minérios, S.A. (ICOMI), the largest national producer, recorded a smaller reduction of slightly over 5%, due to the fact that nearly all of its production is oriented towards the external market.

Among the non-ferrous minerals, bauxite production increased by 6.5%, after a large expansion (117%) in 1980 due to the opening of Mineração Rio do Norte for production in mid-1979.¹²

Copper production, which had been practically paralysed since 1975 on account of its high internal costs, began again in November 1980 in a new mine at Jaguarari (Bahia), which exported most of its production in 1981 (60 000 tons of concentrate) due to the delay in the work on the Carajás refinery.

Zinc ore production was maintained at the equivalent of 80 000 tons of metal content, 90% of which was silicate ore used to supply the plants of the Companhia Minera de Metais e Industrial Ingá. The refinery at Paraibuna Metais, which uses sulphide ore produced residually by Mineração Boquira, had to import practically all the concentrate it needed.

The production of cassiterite increased by nearly 14.3% to 7 800 tons in terms of tin content, with which it was possible to supply nearly all the needs of the refineries, which, for their part, experienced reduced domestic demand for this metal.

Production of non-metallic minerals for its part, developed negatively in line with the drop experienced in demand for construction materials.

As for mining projects, work was begun on the Grande Carajás infrastructure, for which credit was arranged on the basis of the advanced sale of 27 million tons of iron ore to Japan and several European countries.

(iii) *Manufacturing*. For the first time in the entire post-war period, in 1981 the Brazilian industrial sector sustained a severe drop (-6.4%). This decrease amply exceeded the most negative predictions made at the beginning of the year, which had all agreed that there would be a deceleration in economic growth but had not predicted such a substantial contraction. The decline was not only marked but generalized, with the sectors producing consumer durables (-21%) and capital goods (-10%) being the most affected (see table 6).

¹² Around 60% of the production was sent for export in the last two years. However, it is estimated that the exportable surpluses of bauxite will decrease in the future when Alúmina do Norte, S.A. starts operating.

This negative development in the industrial sector chiefly reflected the effect of the restrictive economic policy begun in mid-1980, which was applied more emphatically in the first half of 1981: the period which marked the greatest depression of the sector, as there were some signs of stabilization in the last quarter of the year. In fact, in many branches of industry the recession would have been greater had it not been for the excellent performance of exports of manufactures, the value of which went up 32%.

The industries producing consumer durables were negatively affected chiefly by the rise in interest rates, the freeing of prices in the automobile sector and the decrease in purchasing power in the intermediate income groups: factors which, taken together, limited potential consumers' access to commercial credit. Other factors which reinforced the drop in demand were the increase in unemployment and the lack of job security resulting from the economic crisis itself, and the large volume of purchases made the year before under the stimulus of the negative real interest rates which prevailed during most of that year.

The even more marked contraction in production of capital goods, for its part was caused basically by the drop in gross domestic investment. On the one hand, public investment was limited during 1981 in order to check the fiscal deficit; on the other, a role was played by the unfavourable expectations of private investors as regards the probable development of total demand, given the economic situation. Finally, a third adverse factor was the decrease of available investment resources for agriculture as a result of the restrictive measures mentioned above in relation to preferential credit to this sector.

Table 6

**BRAZIL: GROWTH OF MANUFACTURING PRODUCTION
BY TYPES OF GOODS AND GROUPS OF INDUSTRIES**

	Growth rates			
	1978	1979	1980	1981 ^a
Total manufacturing production	7.6	6.7	7.6	-6.4
Types of goods				
Capital	6.1	5.6	6.6	-9.7
Intermediate	7.1	9.2	8.3	-7.0
Consumer durables	14.1	7.5	10.7	-21.1
Consumer non-durables	7.8	4.7	5.2	-0.5
Groups				
Food products	3.3	2.3	7.1	5.5
Beverages	7.1	5.0	2.7	-3.2
Tobacco	7.8	4.1	-0.9	-
Textiles	5.1	5.9	6.8	-2.8
Clothing, footwear, knitted goods	8.0	4.0	6.2	-1.5
Plastic articles	25.3	25.3	12.3	-16.4
Toiletries, soaps and candles	12.6	13.6	9.4	-7.3
Rubber	6.7	6.6	9.7	-6.1
Paper and paperboard	11.7	12.9	9.6	-5.1
Chemical products	9.0	7.5	9.8	-3.3
Processing of non-metallic minerals	5.6	5.5	6.5	-4.1
Metallurgy	5.7	10.9	12.1	-11.8
Machinery	4.8	7.1	15.4	-10.9
Electrical equipment	9.4	8.0	5.1	-9.6
Transport equipment	14.2	5.1	2.0	-21.4
Employment in industry	1.9	2.7	3.6	-6.1
Consumption of electricity by industry (GWH)	8.2	10.6	7.9	0.2

Source: Fundação Instituto Brasileiro de Geografia e Estatística (IBGE).

^aPreliminary figures

Table 7

BRAZIL: MOTOR VEHICLE PRODUCTION

	Thousands of units				Growth rates			
	1978	1979	1980	1981	1978	1979	1980	1981
Passenger cars	535	548	601	406	15.1	2.4	9.6	-32.4
Light commercial vehicles and utility vehicles ^a	426	474	448	285	25.3	11.3	-5.5	-36.4
Trucks	86	93	102	76	-14.9	8.1	9.5	-25.5
Buses	14	13	14	13	-	-7.1	7.7	-7.1
Total	1 062	1 128	1 165	781	15.3	6.2	3.3	-33.0
Tractors	56	65	69	47	-5.1	16.1	6.2	-31.8
Vehicles running on alcohol and on gasoline								
Vehicles running on gasoline	961	1 017	795	559		5.8	-21.8	-29.7
Vehicles running on alcohol	-	5	254	132	-			-48.2
Conversion of vehicles running on gasoline to alcohol	-	5	29	16	-			-38.0

Source: Central of Brazil, on the basis of figures from the National Association of Motor Manufacturers (ANFAVEA).

^aIncluding multi-purpose light commercial vehicles.

^bFigures only cover passenger cars, light commercial vehicles and utility vehicles.

The intermediate goods sectors — whose total production decreased by 7% — were held back by the negative growth of the two sectors mentioned above, inasmuch as the small drop (-0.5%) in the consumer non-durables sector was the result of the combined effect, on the one hand, of the reduction of purchasing power in the domestic market and, on the other, of the compensatory role played by the increase in exports (especially those of soya oil and orange juice).

Among the individual industrial branches, that of transport equipment registered the largest drop (-21%). This was basically due to the contraction in the automobile industry, whose production dropped 33%. Despite the fact that nearly 214 000 vehicles were exported (36% more than in 1980), the assembly companies had to accumulate additional stocks, since domestic sales fell by 41%. Among the factors which affected this industry, especially influential were the reduction in real remuneration experienced by the middle-income strata, the rise in interest rates in the financial market and the enactment of other specific measures for the sector, which severely limited demand for vehicles.¹³

Especially severe was the drop in production of vehicles running on alcohol, which went down nearly 50% because of the sudden decrease in demand, in contrast with what had occurred in 1980, when sales of this type of automobile increased sharply in response to possible additional restrictions on the consumption of gasoline because of the Middle East conflict. This decrease was due both to the successive increases in the price of the vehicles and the lack of confidence in predictions that there would be a sufficient alcohol supply.¹⁴ These factors were joined by the equalization of conditions of financing for alcohol- and gasoline-driven automobiles and by the proportionately greater rise in the price of alcohol than in that of gasoline. The lower production of alcohol- and gasoline-driven vehicles led to a decline in production of 32% for automobiles, 36% for light commercial vehicles and 26% for trucks (see table 7).

¹³Thus, in 1981 the price of automobiles (which had previously been controlled by the Inter-Ministerial Council on Prices) was liberalized. In addition, car license charges went up and the prices of fuels, gasoline and alcohol, were periodically increased significantly. Furthermore, from 1979 onwards the term of financing for the purchase of vehicles had been reduced to 18 months.

¹⁴As will be seen later on, such fears turned out to be groundless since there were surpluses which had to be exported.

In the case of the other items in the transport equipment category, the contraction of production was lower (-6%), although with great differences between the different activities. Thus, in the railroad sector, while production of railroad cars went down by 48% —which meant that only 13% of the installed capacity was used— and that of locomotives decreased by 5%, the manufacture of passenger trains grew by rather more than 4%, with more favourable prospects for the years to come because of demand from the Federal Railroad Network and the underground lines in São Paulo and Rio de Janeiro. The shipbuilding industry also had a negative performance, reflected in the dismissal of workers and in the reduction of the degree of the production capacity used, which in October 1981 barely reached 23%. The aircraft industry was the only one which registered substantial expansion, thanks to the growing sales abroad by the Brazilian Aircraft Corporation (EMBRAER), both of commercial and military airplanes developed in the country.

The electrical equipment branch suffered a contraction of 10% as a result of reductions in the output of household electrical appliances, sound equipment and television sets.

Another branch whose production declined sharply was the mechanical engineering industry (-11%), although it managed partially to offset the drop in domestic demand caused by the lower investment through a substantial increase in external sales.

As a result of the decreases in the branches mentioned above and of industry in general, the metal-working sector suffered a sharp depression both in the iron and steel and the non-ferrous metal areas.

The iron and steel industry exhibited a severe contraction of around 15%, after a decade during which production grew at an average annual rate of 11% (see table 8). Thus, production of non-flat rolled products dropped 10%, chiefly as a result of the reduction in purchases for civil construction and the mechanical engineering and transport equipment industries which, together, represent more than 75% of demand for these products. For its part, the 19% drop in production of flat rolled products was influenced, in addition to the considerable decrease in purchases by the automobile, mechanical engineering and packing industries, by the paralysation for maintenance reasons of the three State enterprises producing this type of rolled product. This in turn led to an increase in imports of flat rolled products and semimanufactures.

Table 8

BRAZIL: IRON AND STEEL PRODUCTION

	Thousands of tons					Growth rates				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Pig iron	9 380	10 017	11 704	12 685	10 705	17.5	6.8	16.8	8.2	-15.6
Steel ingots	11 164	12 107	13 891	15 339	13 218	21.0	8.4	14.7	10.4	-13.8
Rolled product	8 538	10 173	11 706	13 028	11 089	17.2	19.1	15.1	11.1	-14.9
Flats	4 482	5 614	6 657	7 313	5 920	31.9	25.3	18.6	9.9	-19.0
Non-flats	4 056	4 559	5 048	5 715	5 169	4.3	12.4	10.7	12.7	-9.5

Source: Brazilian Iron and Steel Institute (IBS) and Conselho de N o-Ferrosos e Siderurgia (CONSIDER).

During the course of the year the expansion of the installed capacity of Usinas Sider rgicas de Minas Gerais S.A. (USIMINAS), was concluded, bringing it up to 3.5 million tons in terms of crude steel. Financial difficulties, however, delayed the expansion of the Companhia Sider rgica Paulista (COSIPA), which was also scheduled to amount to 3.5 million tons of crude steel in 1984, and the construction of A os Minas Gerais S.A. (A OMINAS), which may enter into operation in 1983 with a rolling capacity of 20 million tons. The Tubar o project, developed by a consortium of Brazilian, Italian and Japanese enterprises to produce semimanufactures, continued with no financing problems, and is due to enter into production in 1983.

The non-ferrous metals industry also experienced a decline, with aluminium dropping 7.5%, copper (secondary) 29%, lead 20%, tin 11% and nickel 7.5%. The only item which registered an increase in production was zinc (10.5%), due to full operation of the Paraibuna de Metais refinery.

The sharp decrease in consumption of non-ferrous metals was reflected in the 35% decrease in the value of imports and the export of domestic production surpluses to a value of US\$ 160 million.

Despite the unfavourable performance of this subsector, work continued on the construction of large projects, such as the Valesul Alumínio aluminium plant (VALESUL) (with a production capacity of 60 000 tons of primary aluminium), the programmed expansions of the aluminium plants of the Aluminium Company of Canada (ALCAN) and the Companhia Brasileira do Alumínio, the Carajás Metals copper refinery (150 000 tons of electrolytic copper), and the Tocantins (4 800 tons of electrolytic nickel) and CODEMIN (2 000 tons of nickel contained in ferro-nickel) nickel plants, which were scheduled to enter into operation in 1982, with the exception of Níquel Tocantins which began operations in November 1981.

The general economic recession also affected other branches producing intermediate goods such as chemical products, paper and cardboard, non-metallic minerals and rubber, in which production went down between 3% and 6% (see table 6).

Thus the only branch which grew in 1981 was that of food products (5.5%), due chiefly to external sales of processed soya products, coffee, orange juice and sugar. In the other consumer goods branches, in contrast, the evolution was unfavourable, although the reduction in output of clothing, shoes and knitted goods was only small (-1.5%), chiefly due to the increase in shoe exports.

(iv) *Construction.* As a result of the negative evolution of domestic demand and particularly of investment, the construction product decreased by slightly more than 10%.

Under the effects of a considerable decrease in real income and of the financial restrictions imposed on the public and private sectors by economic policy, the real estate market suffered a slump which was only attenuated by the continuation of work begun in previous years. Measures relating to monetary adjustment and the maintaining of a relatively low limit on the portion financed by financial intermediaries¹⁵ had results which were not very encouraging. In the low-cost housing area, although there was a significant increase in loans by the National Housing Bank (BNH), the chief financial institution in this area, these did not serve to attenuate the contraction, since their total amount continued to be only small.

Some of the most significant policy measures relating to the financing of housing in 1981 were the creation of the savings book,¹⁶ the expansion of credit facilities for the construction of condominiums, and the adoption by the Brazilian Savings and Loan System of measures to make the circulation of credit among the different regions more fluid.

In the area of large infrastructure works, the financial limitations of the public sector reduced investment by State enterprises and institutions, particularly in the area of road transport, which only showed signs of reactivation in the second half of the year. Hydroelectric projects were an exception, however, and showed greater dynamism due to the priority given by the Government to energy projects.

(v) *Energy.* Because of the economic recession, consumption of electrical energy grew only slightly more than 3% and the increase in industrial consumption (0.2%) was the lowest in the last 20 years. Other forms of consumption of electricity also increased less than in previous years: commercial consumption increased less than 5% and residential 7.5%.

During 1981 the share of thermal energy in the structure of electrical energy generation continued to diminish. Total generation of energy was 140 600 GWH, which represented an increase of 2.3% over 1980, and of this total 92% corresponded to hydroelectric energy.

As part of the effort to replace thermal energy, which is very costly in terms of its consumption of oil, a scarce raw material in Brazil, some important energy projects were concluded while others were pursued. The interconnection between electricity systems of the north and the northeast was completed and will soon enable hydroelectric energy produced on the San Francisco river to reach Belém. This will make it possible to replace thermal electric

¹⁵This limit was raised as from August.

¹⁶This is a readjustable savings bank book with interest added quarterly, and includes life and disability insurance benefits.

generation, meaning lower oil consumption of the order of 15 000 barrels per day. During the year construction was begun on the Balbina hydroelectric power station (250 000 KW of installed capacity, scheduled to begin operation in 1986) to supply Manaus, a city currently serviced by thermal energy. The contract was also signed for the construction of the Itaparica hydroelectric power station, which will have an installed capacity of 2.5 million KW and should enter into operation in 1986. In 1982 the Emborcação power station, with a capacity of one million KW, will begin operation.

In addition, construction continued on what will be the two largest hydroelectric power stations in Latin America: that at Itaipú (12.6 million KW) whose flood-gates will be closed in the fourth quarter of 1982 and whose first three turbines are expected to begin operation in mid-1983; and that at Tucuruí (7.9 million KW) in Pará State, which will begin operation at the end of 1983 and is to supply the energy needed for the aluminium and Grande Carajás projects.

The execution of the Nuclear Programme, for its part, will involve (according to a decision adopted by the Government in February 1982) the construction of nine plants (of 1 200 MW each) by the year 2000. Of these, Angra I is at the stage of operational testing, Angra II is under construction and is hoped to enter into operation in 1987, and construction of Angra III will begin in 1984. All these plants are located along the coast of the State of Rio de Janeiro. Four others may possibly be located in São Paulo, and another two, whose location has not yet been determined are due to be constructed subsequently. subsequently.¹⁷

The policy of restricting the consumption of petroleum products, together with the contraction in economic activity, brought the apparent consumption of those products down by 8%. The decrease in the consumption of fuel oil was particularly sharp (-20%), mainly as a result of the continuation of fuel-substitution programmes in various branches of industry (see table 9). In addition, the reduction in the domestic consumption of petroleum products made possible their export in an amount equivalent to 10 million barrels of petroleum.

The considerable increase (17%) in production of crude oil, for its part, makes it possible to cover the apparent consumption despite the fact that the volume of imports went down for the second consecutive year (see table 10).

The National Alcohol Programme (PROALCOOL), on the contrary, had a more moderate rate of execution in 1981, due to the evolution of the economic situation in general. Thus, production of vehicles running on alcohol registered a sharp drop, and the total number of vehicles of this type in

Table 9
BRAZIL: APPARENT CONSUMPTION OF PETROLEUM PRODUCTS

	Millions m ³				Percentage breakdown		Growth rates			
	1978	1979	1980	1981	1978	1981	1978	1979	1980	1981
Fuel oil	18.1	18.9	18.0	14.5	29.5	23.7	8.6	4.3	-4.7	-19.5
"A" gasoline	13.6	13.4	11.3	10.6	22.2	17.4	1.9	-1.6	-15.5	-5.9
Diesel oil	15.9	17.5	18.9	18.1	25.8	29.7	8.1	9.7	8.1	-4.2
Gas	4.2	4.6	5.1	5.1	6.8	8.4	7.9	10.3	9.8	1.7
Others ^a	9.5	12.0	13.0	12.7	15.5	20.7	21.6	26.0	8.2	-2.6
Total	61.3	66.3	66.2	61.0	100.0	100.0	9.0	8.2	-0.2	-7.9

Source: Central Bank of Brazil, Ministry of Industry and Trade, and National Petroleum Council.

^aIncludes "B" gasoline, lubricants, household kerosene, aviation kerosene, solvents, asphalts, naphthas and gasolines and anhydrous and hydrated alcohol.

¹⁷During 1981 some controversy arose concerning the higher investment costs of nuclear plants. According to NUCLEBRAS, the average investment per installed KW in nuclear power stations is approximately US\$ 1 488. On the other hand, it is estimated that for the large hydroelectric power stations, including Itaipú, the average investment per KW amounts to only half of that figure, without considering financial costs in either case.

Table 10

**BRAZIL: PRODUCTION, IMPORTS AND APPARENT CONSUMPTION
OF CRUDE PETROLEUM**

	Millions of barrels				Growth rates			
	1978	1979	1980	1981	1978	1979	1980	1981
Production	58.5	60.4	66.4	77.9	-0.3	3.3	9.9	17.3
Imports	332.0	372.2	323.4	313.2	11.7	12.1	-13.1	-3.2
Apparent consumption	390.5	432.6	389.9	391.5	9.7	10.8	-9.9	0.4

Source: Central Bank of Brazil, National Petroleum Council and External Trade Foundation, Boletim Nº 21, February 1982 (1981 imports).

Table 11

BRAZIL: UNEMPLOYMENT RATES IN MAIN URBAN CENTRES

Main cities	1980					1981				
	Quarter				Annual average	Quarter				Annual average
	I	II	III	IV		I	II	III	IV	
Rio de Janeiro	7.9	7.9	7.6	6.6	7.5	8.3	8.9	8.8	8.7	8.6
São Paulo	6.7	5.7	5.3	4.9	5.6	7.4	7.4	7.5	6.7	7.7
Belo Horizonte		8.0	7.4	7.4	7.6	9.9	9.4	8.7	7.9	9.0
Porto Alegre		4.7	4.8	4.1	4.6	5.9	6.3	6.1	4.9	5.8
Salvador		7.8	7.6	6.3	7.3	8.7	9.8	9.2	8.5	9.0
Recife		7.0	7.3	6.3	6.8	8.3	8.8	9.3	7.8	8.6
Average for urban centres ^a		6.7	6.4	5.8	6.3	7.9	8.2	8.1	7.4	7.9

Source: Instituto Brasileiro de Geografia e Estatística (IBGE), Pesquisa Mensal de Empresas (PME).

^aWeighted according to the population of each city.

service amounted to only 440 000 units, i.e., 62% of the figure laid down in the Brazilian Energy Model.¹⁸ This meant not only a reduction in the number of new alcohol distillation projects, but also the generation of alcohol surpluses which were partially exported. With a view to avoiding the generation of greater surpluses, at the end of the year the Executive Commission on Alcohol laid down some regulations which will make the approval of new distillery projects more difficult in the future.

(c) Developments in employment and unemployment

The unfavourable performance of the economy in 1981 seriously affected the employment situation.¹⁹ The recession particularly influenced the industrial sector, causing a substantial drop in industrial employment, with resulting pressures on the service sectors and a rise in the unemployment rate in the main metropolitan regions from an annual average of 6.3% in 1980 to 7.9% in 1981. The greatest deterioration in employment levels was recorded in São Paulo, where the

¹⁸The Brazilian Energy Model is the basic document establishing the strategies for government action in the energy sector. Under its terms, an agreement was established between the Government and the National Association of Motor Manufacturers providing for a fleet of 717 000 alcohol-fuelled vehicles by 1981, 550 000 of which were to be new vehicles and the rest gasoline-fuelled vehicles converted to run on alcohol.

¹⁹It should be pointed out that the employment statistics do not reflect the full seriousness of the employment situation in 1981, given the existence of an extensive informal labour market not covered by labour legislation, which helps mask, to a certain extent, the worsening of unemployment. The Pesquisa Nacional de Amostras Domiciliares (PNAD) includes various statistics which confirm the importance of the informal labour market. According to the 1979 PNAD survey, 31% of employed persons throughout the country received income not higher than one minimum legal wage unit (964 dollars per year). Similarly, it was observed that 29% of employed persons did not have working papers, which are obligatory by law in order to be able to exercise a paid activity.

unemployment rate went from an annual average of 5.6% in 1980 to 7.7% in 1981. However, the highest unemployment rates were recorded in Salvador and Belo Horizonte (9%) while the lowest (5.8%) was once again in Porto Alegre (see table 11). In the industrial sector employment went down by 7% compared with the average level in 1980. As from March, it began to fall rapidly, so that from August onwards the number of persons employed in industry was lower than in 1976, and in the last quarter of 1981 it was 12.7% lower than it had been in the same period in 1980 (see table 12). In addition, the drop in employment was widespread throughout the manufacturing sector, affecting all industrial branches, although with different degrees of intensity. The most seriously affected were the transport equipment, electrical equipment, rubber, plastics and tobacco industries, which at the end of 1981 registered a decrease in employment of over 20% compared with the average for the previous year.

3. The external sector

In 1981 external trade evolved favourably, and indeed one of the few positive aspects of the country's economic performance was the conversion of the 1980 merchandise trade deficit of US\$ 2 800 million into a surplus of US\$ 1 200 million in 1981, the first recorded since 1970.²⁰ This reversal, of the order of US\$ 4 billion, was due to an increase of nearly US\$ 3 200 million in exports and a drop of US\$ 900 million in imports.

At the same time, the non-financial services deficit went down by approximately US\$ 390 million, especially in the transport and travel areas, and this together with the developments in merchandise trade, made it possible to reduce the deficit on trade in goods and services from around US\$ 6 billion in 1980 to US\$ 1 600 million in 1981.

The financial services section of the balance-of-payments current account, in contrast, showed an unfavourable development due to the increase in interest rates in the international financial markets and, to a lesser extent, the increase in the external debt. The amount of external interest payments increased by around US\$ 2 600 million, totalling more than US\$ 10 billion. As a result, the substantive improvement registered in the trade balance did not bring about a similar reduction in the current account deficit, which went from US\$ 12 850 million in 1980 to US\$ 11 700 million in 1981.

The surplus of around US\$ 12 500 million on the capital account of the balance of payments made possible an increase of US\$ 845 million in the international reserves, which had reached a critical level after two consecutive years of considerable losses.

The favourable result achieved in external merchandise trade was due, on the one hand, to the application of global policies which resulted in the contraction of the economy, generating exportable surpluses and decreasing the need for imported goods and, on the other, to specific external trade policy measures which, as in previous years, were oriented simultaneously towards stimulating exports and restricting imports.²¹

In order to stimulate exports, it was decided to adjust the exchange rate according to domestic inflation, without applying adjustments for external inflation. During 1981, the exchange rate was adjusted 35 times (practically three times per month), and by the end of the year the devaluation of the cruzeiro came to 95.1%: a rate practically equal to that of inflation.²²

Secondly, from April onwards it was decided to restore the fiscal subsidies for exports of manufactures, which had been eliminated in December 1979 as part of a set of measures which included a special 30% devaluation of the cruzeiro. The new subsidies consist of a payment linked

²⁰As from the second quarter there was a steady improvement in the merchandise trade balance, which showed a surplus from September onwards.

²¹Procurement of external credits was also encouraged.

²²Even so, as explained above, this policy did not succeed in preventing the decline of the effective annual average real exchange rate.

Table 12

BRAZIL: INDEX OF EMPLOYMENT IN THE INDUSTRIAL SECTOR

(Base: 1976 = 100)

Month	1979	1980	1981
January	105.5	107.3	109.1
February	106.6	108.2	109.2
March	107.4	109.7	108.2
April	107.1	110.5	106.4
May	107.3	110.9	104.5
June	107.0	111.3	103.0
July	106.6	111.3	100.9
August	106.2	111.1	98.9
September	105.7	111.0	97.8
October	106.3	110.6	96.9
November	106.6	110.0	95.8
December	106.2	109.1	95.2
Average	106.6	110.1	102.2

Source: Instituto Brasileiro de Geografia e Estatística (IBGE), *Indicadores Conjunturais da Indústria*, March 1982.

to the FOB value of the exports and are equal for all the eligible sectors.²³ At the same time it was announced that these subsidies would gradually be eliminated by 30 June 1983, with their level going down as follows: in 1981, 15% of the FOB value of the exports; in 1982, 9%; from January to June 1983, 3%, and as from July 1983, 0%.²⁴

This scheme is similar to the one which was introduced in January 1979 to replace the old system of fiscal subsidies so as to fulfil Brazil's commitments in GATT, and it is in line with the country's rights and obligations as a member of that organization.²⁵

In addition, during the year preferential interest rates were maintained for financing export production. Despite the fact that these rates were increased from 35% to 40% the benefits of this incentive increased—without this being an explicit element of trade policy—due to the sharp rise in market interest rates.

With regard to import policy, most of the measures taken in recent years, which were in principle of a transitory nature, were maintained, although in a few cases with narrower coverage, as in the case of the additional duties on a series of products (measures taken between 1974 and 1976), the suspension of the granting of import licenses for products considered to be of a luxury

²³The new fiscal subsidies differ from the old system in that they consist of cash payments made through private banks some time after the exchange or export contract has been made official, while under the old system the businesses receiving subsidies deducted the amount of these from the fiscal debts (IPI) which they had accumulated in respect of their operations in the domestic market. However, in the administration of the fiscal accounts the fiscal export subsidies continued to be deducted from the tax on industrial production (IPI) revenue, so that from the accounting point of view they represent smaller tax revenue rather than greater fiscal expenditures (see section on fiscal policy below).

²⁴It should be noted, however, that in November 1981 it was decided to delay the gradual reduction of the subsidy planned for the year 1982, and the following scheme was adopted: up to 30 March 1982 the level would remain at 15%; up to 29 June 1982, 14%; up to 29 September 1982, 12.5%; and up to 31 December 1982, 9%.

²⁵In line with the interpretations agreed upon at the Multilateral Trade Negotiations (Tokyo Round) regarding GATT articles VI (anti-dumping and compensatory duties), XVI (subsidies) and XXIII (protection of concessions and advantages), Brazil, as a developing country, has maintained its right to grant subsidies to exports of industrial products, provided they do not cause harm to a specific industry in other member countries. On the other hand, Brazil has undertaken gradually to eliminate fiscal subsidies. In a few cases, where there were or could be claims for damages caused by increases in subsidized imports of Brazilian products, it was decided to neutralize the fiscal subsidies by applying a tax, in an amount practically equal to the subsidy, to exports to those specific markets. Thus export taxes were imposed on the following products being exported to the United States: textiles and textile manufactures; products made from leather, rubber, plastics and other materials; men's and boys' leather clothing; leather footwear; non-prepared cotton yarn for wholesale sale; pig iron; certain types of scissors; certain castor-oil products, and leather bags. In the case of women's footwear there is also a tax on exports to the European Economic Community.

nature (enacted in 1976), and the application of the Financial Transactions Tax (IOF) to exchange operations in connection with imports (this tax was raised to 25% as from 1 January).²⁶ There was also continuation of the control on external purchases by the public sector,²⁷ the pressure to obtain external financing for the importation of an extensive range of products, and the requirement that advance authorization must be obtained from CONSIDER for the importation of a large number of iron, steel and mineral products.

As from the end of 1980 the "Chief importers"²⁸ were obliged to submit annual importation programmes which in principle must not exceed the value of the imports made the previous year. Despite the fact that this measure was of a restrictive nature, since the increase in import prices reduced the authorized volume of imports, in practice it appears to have facilitated the granting of import licenses and made it unnecessary to use administrative delays as a means of discouraging imports.

In addition to the restrictive policy, the drop in imports was also influenced by the contraction in domestic production, the lack of incentives to form speculative stocks of goods, as a result of the exchange policy adopted during 1981 and the rise in interest rates, and the continuation of the long-term policy of import substitution.

Despite the new policy adopted in the area of devaluation of the cruzeiro, the index of the average real exchange rate in 1981 decreased significantly compared with the figure for 1980, the drop being 8.5% when calculated with respect to the dollar (see table 13).

Table 13
BRAZIL: EVOLUTION OF THE EXCHANGE RATE AND OF PRICES
(1973 = 100)

Annual and quarterly averages	Official exchange rate (cruzeiros per dollar)		General price index (domestic availability) (3)	United States wholesale price index (4)	Real exchange rate (2) / (3) (5)	Adjusted real exchange rate (5) x (4) (6)
	(1)	(2)				
1974	6 790	110.8	128.7	118.8	86.1	102.3
1975	8 129	132.7	164.6	129.9	80.6	104.7
1976	10 675	174.3	232.4	135.8	75.0	101.9
1977	14 144	230.9	331.6	144.2	69.6	100.4
1978	18 070	295.0	459.9	155.5	64.1	99.7
1979	26 945	439.9	707.8	175.0	62.2	108.7
1980	52 714	860.6	1 417.4	199.3	60.7	121.0
I	45 007	734.7	1 047.4	192.2	70.1	134.7
II	49 825	813.3	1 244.4	196.2	65.4	128.3
III	54 700	892.9	1 522.2	202.6	58.7	118.9
IV	61 325	1 001.1	1 855.8	206.9	53.9	111.5
1981	93 125	1 520.2	2 975.0	217.6	51.1	111.2
I	70 801	1 155.8	2 276.9	212.9	50.8	108.2
II	83 802	1 369.4	2 729.7	218.1	50.2	109.5
III	99 722	1 627.9	3 199.4	219.8	50.9	111.9
IV	118 084	1 927.6	3 693.5	219.7	52.2	114.7

Source: International Monetary Fund, *International Financial Statistics*, May 1982, and Gerulio Vargas Foundation, *Conjuntura Econômica*, February 1982.

²⁶As from 5 March the tax on import operations from ALADI countries was reduced to 20% (BACEN resolution 683).

²⁷In January the ceiling for external purchases by public enterprises, excluding oil and wheat, was fixed at US\$ 3 600 million.

²⁸These are businesses whose imports in 1981 had a value of over US\$ 100 000.

Table 14

**BRAZIL: EVOLUTION OF THE EFFECTIVE REAL EXCHANGE RATES
FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual averages	Exports	Imports
1970	66.4	50.7
1971	67.7	52.1
1972	73.7	56.2
1973	76.4	59.1
1974	76.6	68.8
1975	77.9	68.8
1976	75.9	67.7
1977	76.1	67.9
1978	80.2	69.9
1979	89.8	80.9
1980	100.0	100.0
1981	82.5	87.2

Source: Statistical Appendix.

^aThese indexes were obtained by adding together the real exchange rates in relation to each country, weighted according to the geographical composition of exports or imports, taking into account the main trade flows of Brazil. The real exchange rate index in relation to a specific country was obtained by dividing the exchange index as between Brazilian currency and that of the country in question by the price index of Brazil and the corresponding price indexes of the other country, preferably using the wholesale price index. In the case of imports, the indexes for Saudi Arabia, Iraq, Iran and Kuwait were used as indexes of petroleum prices. There are 13 countries included in the estimates for exports and 15 in those for imports, representing 65.2% and 82.4% of Brazil's external trade for the period 1975-1979, respectively.

If instead of analysing the relationship between the cruzeiro and the dollar, however, an analysis is made between the cruzeiro and the group of currencies of the countries with which Brazil maintains major trade relations, it will be observed that the evolution of the real exchange rate was a good deal more unfavourable in 1981. Weighted according to the geographical composition of Brazilian trade, the decrease in the effective real exchange rate amounted to 17.5% for exports and 12.8% for imports (see table 14 and figure 2). These decreases were chiefly due to the sharp rise in value of the dollar in relation to the European currencies and to the more than 300% devaluation of the Argentine peso.²⁹ It was to a large extent this deterioration in the real exchange rate which made it necessary to restore export subsidies so as to ease the difficulties which exporters of manufactured goods were beginning to have in selling their products abroad.

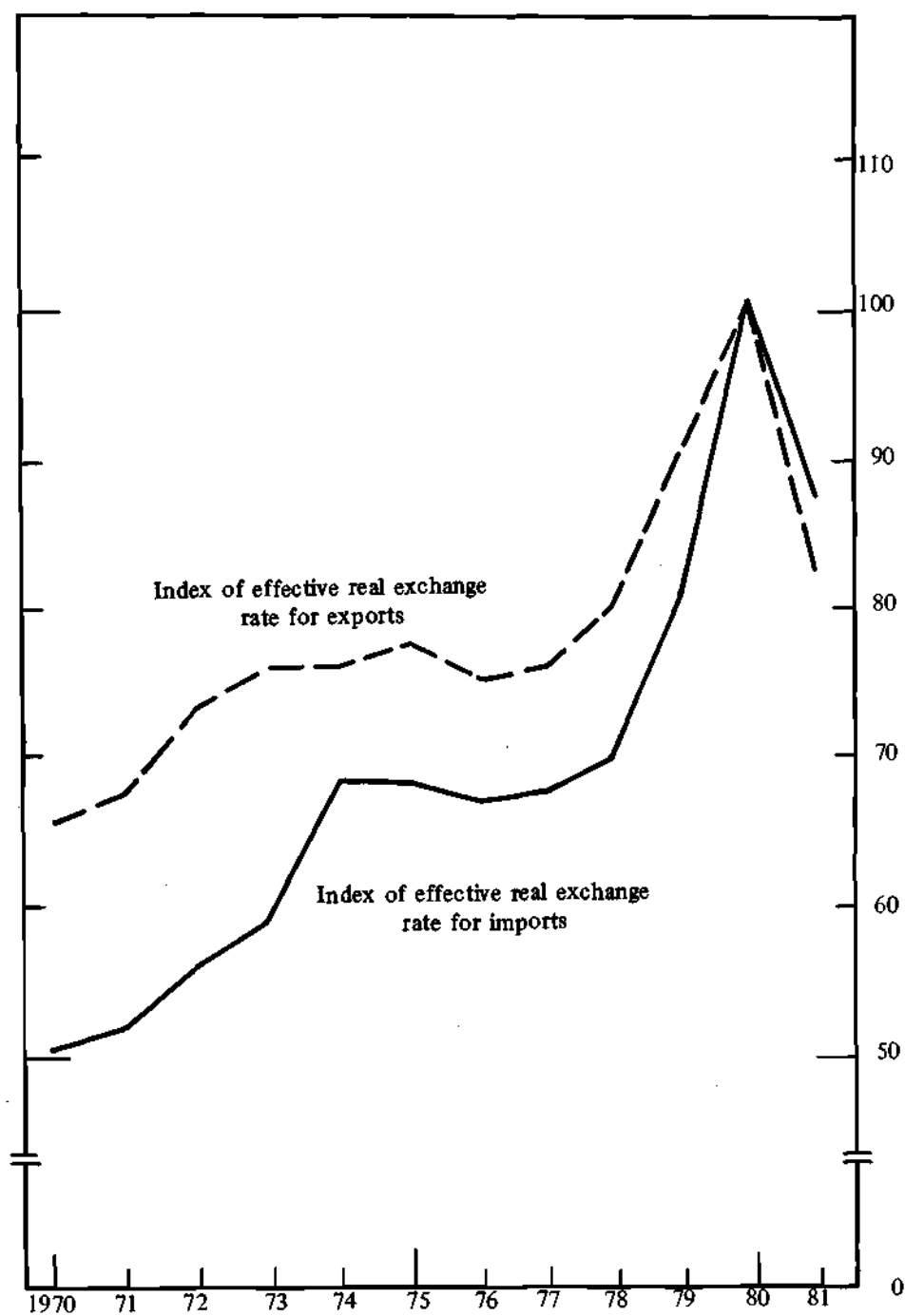
Even so, the data in the form of annual averages do not correctly reflect the changes in exchange policy which occurred in 1980 and 1981. Thus, the drop in the annual average real exchange rate in relation to the dollar reflected the high level the former had attained in the early months of 1980 as a result of the severe devaluation of the cruzeiro effected in December 1979. However, during the course of 1980 the rate deteriorated considerably because of the policy of prefixing the increase in the nominal exchange rate, which gave rise to a rate of devaluation that was much lower than the inflation registered that year. This caused a decrease in the real exchange rate, which went down from 134.7 in the first quarter of 1980 to 111.5 in the fourth quarter of the same year; in the first quarter of 1981 it again decreased, sinking to 108.2.³⁰

Later on, however, the real exchange rate began to recover gradually, rising to 114.7 in the last quarter (see figure 3 and table 13).

²⁹In this connection, see the section on Brazil in the appendix on effective exchange rates at the end of this Survey.

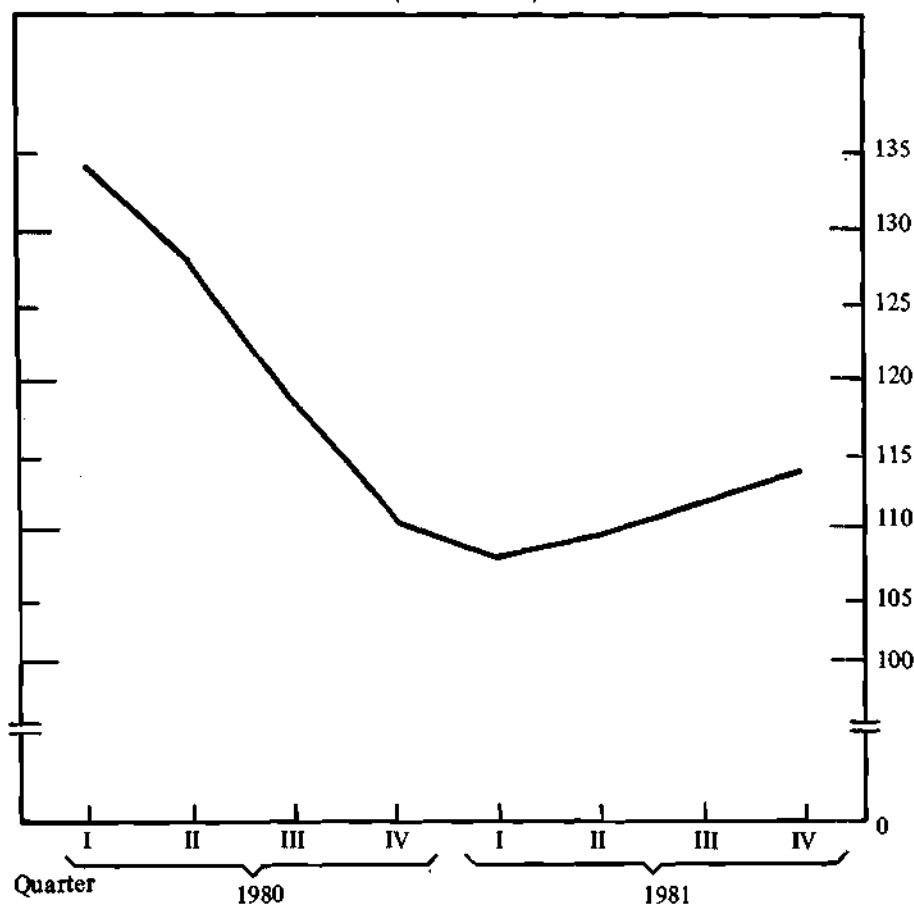
³⁰This value was practically equal to the index for the second and third quarters of 1979 (107.4), before the maxi-devaluation of the cruzeiro. In other words, the export sectors had totally lost the advantages of the maxi-devaluation. Consequently, the elimination of the fiscal subsidy for manufactured products and the application of export taxes to a series of commodities, which had been compensated by the maxi-devaluation of December 1979, involved net losses in terms of external competitiveness by the beginning of the year.

Figure 2
**BRAZIL: EVOLUTION OF THE EFFECTIVE REAL EXCHANGE
 RATES FOR EXPORTS AND IMPORTS**
(1980 = 100)



Source: Statistical Appendix.

Figure 3
BRAZIL: EVOLUTION OF THE ADJUSTED REAL EXCHANGE^a
 (1973 = 100)



Source: International Monetary Fund, *International Financial Statistics*, May 1982, and Getulio Vargas Foundation, *Conjuntura Economica*, February 1982.

^aCruzeiros per dollar.

(a) *Merchandise trade*

(i) *Exports*. In 1981 the growth of the value of exports was again spectacular (16%); it should be noted that in nine of the last twelve years their rate of expansion has been higher than 15% (see table 15). This increase in exports, it is true, was far below the initial goal of 30%, but the fact that that objective was not reached was due chiefly to external factors, such as the drop in the international prices of export products (especially commodities) and the very low growth of world trade caused by the economic recession in the industrialized countries and the recurrence of protectionist pressures in them. Nevertheless, after an unsatisfactory performance by exports in the first quarter, their rate of expansion improved during the rest of the year.

The evolution of the value of exports by product groups was highly uneven; while commodities grew by only 5% and semi-industrialized products dropped 11.7%, manufactured products increased 32%, repeating their extraordinarily high growth of the five previous years.

Table 15
BRAZIL: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
Growth rates							
Exports of goods, FOB							
Value	8.7	17.3	19.7	4.6	22.2	32.1	15.7
Volume	8.4	1.6	7.3	12.5	12.0	22.3	25.1
Unit value	0.3	15.4	11.6	-7.6	9.1	8.0	-7.5
Imports of goods, FOB							
Value	-4.1	2.5	-2.6	13.4	31.8	27.8	-3.8
Volume	-10.0	-3.3	-5.1	5.9	9.9	-0.8	-13.4
Unit value	6.5	6.0	2.6	7.0	19.9	28.8	11.1
Terms of trade (goods)	-6.1	8.7	8.5	-13.1	-8.8	-15.7	-16.7
Indexes (1970 = 100)							
Terms of trade (goods)	85.4	92.9	100.8	87.6	79.9	67.4	56.1
Purchasing power of exports of goods	145.1	160.4	185.8	181.5	188.4	200.9	211.9
Purchasing power of exports of goods and services	146.1	158.0	183.0	179.8	184.7	195.0	207.7

Source: ECLA, on the basis of official data.

^aPreliminary figures.

Table 16
BRAZIL: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates				
	1978	1979	1980	1981 ^a	1970	1981 ^a	1977	1978	1979	1980	1981 ^a
Total	12 659	15 244	20 132	23 293	100.0	100.0	19.9	4.3	20.4	32.1	15.7
Commodities	6 096	6 553	8 488	8 911	74.8	38.3	13.8	-12.6	7.5	29.5	5.0
Coffee beans	1 947	1 918	2 486	1 517	34.3	6.5	5.8	-15.3	-1.5	29.6	-39.0
Iron ore	1 028	1 288	1 564	1 736	7.7	7.5	-8.8	13.3	25.3	21.4	11.0
Soya flour and cake	1 050	1 137	1 449	2 136	1.6	9.2	44.7	-8.7	8.3	27.4	47.4
Soya beans	170	179	394	404	1.0	1.7	-9.9	-76.1	5.9	120.1	2.5
Unrefined sugar	196	247	625	579	4.6	2.5	81.0	-29.2	26.0	153.0	-7.4
Others	1 705	1 783	1 970	2 539	19.4	8.9	28.8	33.0	4.6	10.5	28.9
Industrial products	6 386	8 532	11 376	13 998	24.3	60.1	35.1	30.6	33.6	33.4	23.0
Semi-manufactures	1 389	1 887	2 348	2 074	9.1	8.9	33.5	23.6	35.9	24.2	-11.7
Manufactures	4 997	6 645	9 028	11 924	15.2	51.2	35.6	32.7	33.0	36.1	32.1
Transport equipment	828	1 094	1 512	2 066	0.5	8.9	31.9	68.3	32.1	38.2	36.6
Machinery, boilers, and mechanical apparatus ^b	566	711	1 382	1 536	0.4	6.6	60.5	32.6	25.6	32.9	11.9
Processed coffee	348	409	287	244	1.6	1.1	44.7	6.4	17.5	-29.8	-15.0
Electrical machinery and equipment	315	344	459	566	0.6	2.4	48.7	12.1	9.2	33.4	23.3
Footwear	281	351	408	586	0.3	9.5	-	60.6	24.9	10.5	43.6
Orange juice	332	281	339	659	-	2.8	75.2	87.6	-15.4	20.6	94.4
Others	2 327	3 455	4 641	6 257	11.3	25.4	30.4	23.4	48.5	47.9	34.8
Other products	177	159	268	384	0.9	1.6	-27.0	-36.3	10.2	79.2	34.7

Source: Banco Do Brasil S.A., Carteira de Comércio Exterior (CACEX).

^aPreliminary figures.

^bThe composition of this item was changed as from 1980.

The process of diversification of exports also continued to gather pace, so that the share of commodities in total exports of goods fell from nearly 75% in 1970 to 38% in 1981, while that of manufactured products more than tripled, going from 15 to 51% (see table 16).

At the same time, the process of geographical diversification of exports continued. The value of exports of developing countries grew much more rapidly (30%) than that of sales to developed countries (6%) and was responsible for 63% of the total increase in exports. The increase in sales to the first-named group of countries was stimulated in particular by the 59% growth in exports to petroleum-exporting countries; sales to the other developing countries rose 24%. The dynamism of exports to African petroleum-exporting countries was particularly significant. Exports to ALADI countries grew by 22%, despite the economic difficulties experienced by Argentina (Brazil's chief market within ALADI) which caused a 19% drop in the value of exports to that country. Excluding Argentina, the value of exports to ALADI grew by 41% (see table 17).

The dynamism of exports to the different industrialized countries was very diverse. While sales to the United States grew by 17%, those to the European Economic Community (EEC) rose by only 9%, and sales to Japan stagnated. This phenomenon partly reflected the loss of competitiveness of exports to Europe caused by the rise in value of the dollar with respect to the European currencies and was partly due also to the greater share of commodities — whose prices suffered sharp decreases — in exports to the EEC and Japan.

However, the lesser dynamism of exports to the developed economies as a whole was also due to some extent to the lower economic growth in those countries, as well as to the intensification of protectionism, with its resulting effects on the growth of their external trade and, in some cases, on the conditions of access of Brazilian products to their markets.

Table 17

**BRAZIL: EXPORTS OF GOODS, BY GROUPS OF COUNTRIES
OF DESTINATION, 1970-1981**

	Millions of dollars FOB					Percentage breakdown		Growth rates			
	1970	1976	1978	1980	1981	1970	1981	1978	1979	1980	1981
Total	2 739	10 128	12 659	20 132	23 293	100.0	100.0	4.4	20.4	32.1	15.7
1. Developed countries	2 155	6 973	8 511	12 022	12 690	78.7	54.5	3.4	14.3	23.6	5.6
United States, Canada, European Economic Community ^a and Japan	1 829	5 705	7 434	10 381	11 482	66.8	49.3	8.2	15.4	21.0	10.6
United States ^a	676	1 816	2 833	3 440	4 040	24.7	17.4	33.6	2.4	18.6	17.4
Canada	41	137	152	243	290	1.5	1.2	6.9	30.8	21.7	19.4
European Economic Community ^a	967	3 113	3 799	5 466	5 936	35.3	25.5	-3.1	20.9	19.0	8.6
Japan	145	639	650	1 232	1 215	5.3	5.2	-5.0	36.4	38.9	-1.3
Others ^b	326	1 267	1 077	1 642	1 388	11.9	6.0	-21.2	6.3	43.4	-15.5
2. Eastern Europe	123	910	729	1 307	1 699	4.5	7.3	-15.2	33.9	33.9	30.0
3. Developing countries^c	461	2 150	3 276	6 543	8 529	16.8	36.7	11.9	34.3	48.7	30.5
OPEC ^d	27	430	688	1 233	1 962	1.0	8.4	17.0	-12.5	104.7	59.2
Others	434	1 720	2 588	5 311	6 577	15.8	28.3	10.6	46.8	39.9	23.8
(ALADI)	(303)	(1 202)	(1 619)	(3 458)	(4 210)	11.1	18.1	9.4	52.9	39.7	21.7
Supplies to ships and airplanes; not declared	4	96	143	260	366	-	1.5*				

Source: ECLA, on the basis of data from the Carteira de Comércio Exterior (CACEX).

^aTen countries.

^bAustria, Norway, Portugal, Sweden, Switzerland, Spain, Finland, Iceland, Yugoslavia, Malta, Turkey, Israel, Australia, New Zealand, South Africa.

^cIncludes socialist countries of Asia.

^dExcludes Ecuador y Venezuela.

Despite the drop of somewhat more than 10% on average in the price of commodities, the volume of them exported rose 16%. Especially unfavourable effects were produced by the decreases in the prices of such important commodities as coffee,³¹ cocoa and sugar, which confirmed especially in the first two cases, a downward trend in the medium term. Chiefly for this reason, the total value of exports of these three products dropped 31%. On the other hand, exports of soya cake grew at an extraordinary rate (47%), due both to the greater volume exported (35%) and to the increase in the export price. For their part, exports of iron ore increased 11% in value and 8% in physical volume.

The approximately 12% decrease in the value of exports of semi-manufactured products was partly due to a slight reduction in the volume exported, but chiefly to the lower export prices (-10%).

The value of exports of manufactures, on the other hand, grew by 32%, despite the slight drop in prices. This favourable performance, moreover, included nearly all the product groups making up that division. Specially noteworthy, however, were the increases in sales of organic chemicals, petroleum products, concentrated orange juice, footwear, transport equipment and paper. In absolute terms the sector which contributed the most to the increase in exports of manufactures was that of transport equipment, whose external sales grew by more than US\$ 500 million to a total of more than US\$ 2 billion in 1981: a value larger than that of sales of raw coffee and lower only than exports of soya meal and cake (see table 16). The increase in exports of manufactures such as automobiles and tractors, was partially facilitated by the sharp contraction in domestic demand.

(ii) *Imports.* In 1981 the value of imports came to US\$ 22 billion: 4% less than in 1980 and approximately US\$ 3 billion less than the initial predictions of the economic authorities. Furthermore, the growth rate of the accumulated value of imports declined steadily in the course of the year (see table 18).

Table 18
BRAZIL: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1978	1979	1980	1981	1970	1981	1978	1979	1980	1981
Total	13 683	18 084	22 955	22 080	100.0	100.0	13.8	32.2	27.0	-3.8
Consumer goods	1 116	1 582	1 316	988	13.6	4.5	19.9	41.8	-16.8	-24.9
Intermediate goods	9 014	12 727	17 259	17 072	48.1	77.3	12.8	41.2	35.6	-1.1
Fuels and lubricants	4 483	6 773	10 200	11 333	7.0	51.3	9.9	51.1	50.6	11.1
Others	4 531	5 954	7 059	5 739	41.1	26.0	15.9	31.4	18.6	-18.7
Capital goods	3 552	3 775	4 381	4 020	38.3	18.2	14.5	6.3	16.1	-8.2

Source: Central Bank of Brazil.

The basic cause of the decrease in the value of imports was the marked drop in their volume, which dropped by more than 13%, after having gone down marginally during the previous year (see table 15). This decline was due not only to the contraction in domestic economic activity but also to the continuing policy of containing purchases abroad, to the fact that there was no longer any incentive for forming speculative stocks, and, in general terms, to the long-term policy of import substitution.

The downward trend in the merchandise import coefficient consequently continued in 1981, with the volume of such goods similar to or lower than that attained in 1977 and 17% lower than the extremely high level registered in 1974, which was when the restrictive policy which has continued in effect, with periodic alterations, began to be applied.

³¹It may be noted that as a result of the drop in the price of coffee, Brazil lost more than US\$ 1 billion in export income compared with 1980.

Table 19

**BRAZIL: IMPORTS OF GOODS, BY GROUPS
OF COUNTRIES OF ORIGIN, 1970-1981**

	Millions of dollars					Percentage breakdown		Growth rates			
	1970	1976	1978	1980	1981	1970	1981	1978	1979	1980	1981
Total	2 507	12 383	13 683	22 955	22 080	100.0	100.0	13.8	32.2	26.9	-3.8
1. Developed countries	1 977	7 336	7 800	10 625	9 153	78.8	41.5	18.4	14.5	18.9	-13.9
United States, Canada, European Economic Community ^a and Japan	1 784	6 519	7 012	9 472	8 232	71.1	37.3	20.6	13.0	19.6	-13.1
United States	824	2 823	2 860	4 077	3 461	32.9	15.7	20.3	12.5	26.8	-15.1
Canada	61	311	357	814	544	2.4	2.5	33.7	-3.4	135.9	-33.2
European Economic Community ^a	739	2 513	2 553	3 515	2 970	29.5	13.4	9.8	28.3	7.3	-15.5
Japan	159	872	1 242	1 066	1 257	6.3	5.7	47.0	-12.6	-1.8	17.9
Others ^b	193	817	788	1 153	921	7.7	4.2	1.9	28.4	13.9	-20.1
2. Eastern Europe	52	226	192	249	241	2.1	1.1	-15.0	24.5	4.2	-3.2
3. Developing countries^c	478	4 821	5 691	12 081	12 686	19.1	57.4	9.3	56.6	35.6	5.0
OPEC	147	3 407	3 950	8 434	8 598	5.9	38.9	9.0	51.5	40.9	1.9
Other	331	1 414	1 741	3 647	4 088	13.2	18.5	9.8	68.1	24.6	12.1
(ALADI)	264	1 173	1 422	2 692	3 126	10.5	14.2	5.9	55.3	21.9	16.1

Source: ECLA, on the basis of data from the Carreira de Comércio Exterior (CACEX).

^aTen countries.

^bAustria, Norway, Portugal, Sweden, Switzerland, Spain, Finland, Iceland, Yugoslavia, Malta, Turkey, Israel, Australia, New Zealand, South Africa.

^cIncludes socialist countries of Asia.

^dExcludes Ecuador and Venezuela.

Of the major product groups, only the value of imports of fuels grew significantly (11%), despite the fact that their volume decreased by 5%. In contrast, the value of imports of other intermediate goods decreased by nearly 19%. Within this group, there were particularly sharp reductions in the value of imports of inorganic chemical products (-47%), organic chemical products (-28%), fertilizers (-43%)³² and copper and copper manufactures (-38%). Only iron and steel imports grew significantly (24%),³³ despite a 14% reduction in their prices.

The value of imports of consumer goods also decreased drastically for the second year in a row (-17% in 1980 and -25% in 1981) and represented barely 4.5% of total imports. The value of capital goods purchases also decreased, although to a much smaller extent (-8%). Their share in total imports consequently also decreased, amounting in 1981 to less than half the value recorded in 1970 (see table 18).

The largest drop in import value by geographical origin was registered by imports from the developed countries (-14%). Brazil's purchases in the United States and the member countries of the European Economic Community decreased by around 15%, but those effected in Japan grew by 18%, confirming once more the growing importance of that country as a trade partner of Brazil in the last decade (see table 19). Purchases in developing countries (other than those belonging to

³²This sharp drop appears to have been caused chiefly by the reduction in the subsidized credit for the purchase of this product and the high levels of stocks held at the beginning of the year.

³³The growth of these imports was due to the increase in drawback operations and the reduction of production on account of the shutting down of the blast furnaces of the three State iron and steel companies for four months, for maintenance reasons.

OPEC) increased by 12% and, as in the two previous years, grew at a greater rate than those in developed countries. Similar behaviour was shown by imports from member countries of ALADI, whose share in Brazil's total imports went up from around 10% in 1970 to over 14% in 1981. Finally, purchases in the Eastern European countries decreased by 3% and only slightly exceeded the amount reached in 1976 (see table 19).

(iii) *The terms of trade and the purchasing power of exports.* In 1981, for the fourth consecutive year, the terms of trade once more suffered a significant drop, bringing their value, on the basis of 1970=100, to barely 56. This decline was due to a 7.5% drop in export prices and an 11% increase in import prices chiefly caused by the 16% rise in the price of fuels and lubricants (see table 15).

As a result of the unfavourable evolution of the terms of trade, the increase in the purchasing power of exports of goods in the last two years has been much lower than the growth in their physical volume. Thus, between 1977 and 1981 exports of goods, expressed in constant 1970 prices, increased by US\$ 4 400 million, i.e., at the exceptionally high annual rate of nearly 18%. During the same period, however, the purchasing power of exports grew by only US\$ 715 million (3.3% annually), which represented a loss, as an effect of the deterioration in the terms of trade, of more than US\$ 4 billion at 1970 prices.

(b) *Services trade and factor payments*

(i) *Tourism and transport.* In 1981 the traditionally negative balance of trade in non-financial services generated a deficit of slightly more than US\$ 2 800 million: 9% less than in 1980. The reduction of the deficit in the area of transport and insurance was closely linked with the evolution of trade flows. The contraction in imports was reflected in a slight reduction in outgoings, whereas revenue again confirmed the upward trend of recent years. This trend is linked to the expansion of the Brazilian merchant fleet and to the growth in exports, especially in those areas where participation by Brazilian transporters is most feasible. In tourism there was an increase in revenue, chiefly because of the greater influx of Argentine tourists in the early months of the year, but this dropped substantially in the following months because of the considerable devaluation of that country's currency as from March (see table 20).

(ii) *Profit and interest payments.* The deficit in these two areas rose in 1981 to nearly US\$ 10 300 million (US\$ 3 200 million more than in 1980), out of which US\$ 390 million corresponded to larger remittances of profits and around US\$ 2 800 million to greater interest payments.

The net balance in the area of interest payments increased 45%, confirming past trends which are closely connected to the level of the external debt but which in 1981 were accentuated both by the rise in interest rates in the international financial markets and the bigger spreads charged to Brazil over the basic reference rates.³⁴

Net payments of profits abroad increased 54%, with a markedly greater increase in the area of reinvested profits. The latter was due to the fact that the rise in external interest rates encouraged reinvestment of profits by foreign businesses located in Brazil.

(c) *The current account position and its financing*

The deficit on the current account of the balance of payments in 1981 amounted to US\$ 11 700 million: nearly 10% less than the 1980 deficit. The ratio between this deficit and the value of exports of goods and services likewise decreased for the second consecutive year, amounting to 46% in 1981: considerably less than the 63% recorded in 1979.³⁵

³⁴The spreads charged to Brazil amounted in 1981 to 2 1/8 over LIBOR, in comparison with 1.4% in 1980 and 0.8% in 1979.

³⁵The ratio between the current account deficit and exports fell throughout the period 1974-1977, reaching a minimum of 39% in 1977, chiefly due to the increase in the physical volume of exports, the reduction of the physical volume of imports and the sharp increase in export prices. In contrast, the increase in the physical volume of imports and the deterioration of the terms of trade caused this ratio to rise in 1978 (51%) and 1979 (63%). The subsequent reduction occurred despite a continued deterioration in the terms of trade and a growing rate of external interest payments that was higher than the increase in exports (a phenomenon also observed in previous years).

Table 20

BRAZIL: BALANCE OF PAYMENTS

(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	10 996	13 148	13 839	16 739	21 895	25 575
Goods FOB	9 961	11 922	12 473	15 244	20 132	23 293
Services ^b	1 035	1 226	1 366	1 494	1 764	2 282
Transports and insurance	508	546	570	705	843	1 079
Travel	57	55	69	74	125	243
Imports of goods and services	14 956	14 823	16 714	21 772	27 839	27 199
Goods FOB	12 346	12 022	13 632	17 961	22 955	22 080
Services ^b	2 610	2 801	3 082	3 810	4 885	5 119
Transports and insurance	1 475	1 522	1 580	2 104	2 758	2 750
Travel	360	229	254	310	367	408
Merchandise balance	-2 385	-1 000	-1 159	-2 717	-2 823	-1 213
Trade balance	-3 959	-1 675	-2 875	-5 033	-5 944	-1 624
Profits and interest	-2 599	-3 436	-4 234	-5 461	-7 032	-10 290
Profits	-788	-1 332	-1 535	-1 356	-722	-1 111
Interest received	281	361	644	1 157	1 146	865
Interest paid	-2 092	-2 464	-3 343	-5 262	-7 456	-10 044
Unrequited private transfer payments	7	-5	70	12	128	197
Balance on current account	-6 551	-5 115	-7 039	-10 482	-12 848	-11 717
Unrequited official transfer payments	-3	4	3	5	42	-
Long-term capital	6 108	6 041	10 088	6 466	7 104	11 506
Direct investment	1 372	1 688	1 882	2 223	1 544	2 310
Portfolio investment	-	-	-	659	354	...
Other long-term capital	4 736	4 354	8 205	3 584	5 206	...
Official sector ^c	1 512	2 406	3 965	3 370	-14	...
Loans received	2 659	4 098	6 240	4 665	1 841	...
Amortization payments	-1 103	-1 691	-2 062	-1 278	-1 366	-1 600
Commercial banks ^c	909	450	1 853	486	2 106	...
Loans received	1 460	1 271	2 898	1 981	4 005	...
Amortization payments	-552	-819	-1 043	-1 494	-1 917	-2 250
Other sector ^c	2 315	1 497	2 387	-272	3 115	...
Loan received	3 914	3 395	4 979	4 248	6 085	...
Amortization payments	-1 362	-1 623	-2 169	-3 781	-3 394	-3 950
Basic balance	-446	929	3 051	-4 011	-5 702	-211
Short-term capital	2 627	220	1 273	-122	2 572	1 411
Official sector	453	-318	499	274	-31	69
Commercial banks	1 084	237	897	-422	608	1 285
Other sectors	1 090	300	-123	26	1 996	57
Errors and omissions (net)	491	-628	300	1 233	-343	-355
Balance on capital account	9 223	5 636	11 666	7 582	9 379	12 562
Global balance	2 672	521	4 627	-2 900	-3 469	845
Total variation in reserves ^d (minus sign indicates and increase)	-2 509	-710	-4 640	2 860	3 322	-845
Monetary gold	-	-7	-4	-	-103	-13
Special Drawing Rights	-8	-11	-30	-144	-1	-68
IMF reserves position	-52	-6	13	-60	-103	80
Foreign exchange assets	-2 448	-686	-4 619	3 063	3 301	-844
Other assets	-	-	-	-	228	-
Use made of IMF credit	-	-	-	-	-	-

Source: 1976-1980: International Monetary Fund, Balance of Payments Yearbook; 1981: ECLA, on the basis of official data.

^a Preliminary figures.

^b Services also include other official and private transactions, but exclude profits and interest.

^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^d This difference between total variation in reserves of opposite sign and the global balance represents the value of counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

In contrast with what occurred in 1979 and 1980, the 1981 current account deficit was financed entirely from the net inflow of external capital, which also enabled the international reserves to be increased by US\$ 845 million.

The net inflow of long-term capital came to slightly more than US\$ 11 500 million, of which a little over US\$ 2 300 million represented direct external investment and nearly US\$ 9 200 million took the form of loans. Direct investment increased significantly (50%), chiefly because of reinvestment of profits.

There was an inflow of US\$ 16 700 million in new medium- and long-term loans, while amortization payments amounted to US\$ 7 800 million. The inflow received consisted predominantly of resources from private financial capital, obtained under the régimes laid down in resolution 68 and Law 4.131.³⁶ This procurement of new resources was especially encouraged by the elimination of the controls on domestic interest rates and their resulting increase, and by the new exchange policy.

(d) *The external debt*

At the end of 1981, the external debt totalled US\$ 61 400 million, which was 14% higher than that recorded one year before. This increase was almost entirely due to the procurement of credit by private banks through the two mechanisms mentioned above: operations which were especially encouraged by the Government (see table 21). Nevertheless, the growth rate of the debt was less than that of exports, so that the ratio between the two, which had decreased from 3.0 to 2.5 between 1979 and 1980, went down to 2.4 in 1981.

Table 21
BRAZIL: TOTAL EXTERNAL DEBT
(Millions of US dollars at year end)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Total	12 572	17 166	21 171	25 985	32 037	43 511	49 904	53 847	61 400
Compensatory loans	203	169	137	106	75	44	19	-	-
United States government	200	169	37	106	75	44	19	-	-
Others	3	-	-	-	-	-	-	-	-
Bonds	142	172	161	289	1 222	2 380	2 966	3 236	2 800
International agencies	972	1 388	1 655	1 993	2 355	2 885	3 211	3 485	3 500
World Bank ^a	695	1 075	1 239	1 447	1 731	2 154	2 338	2 438	2 440
Inter-American Development Bank	277	312	416	546	624	731	873	1 047	1 060
Official bilateral agencies	1 688	2 151	2 430	2 757	2 864	3 155	3 219	3 483	3 700
United States Agency for International development (AID)	1 008	1 054	1 092	1 121	1 117	1 100	1 077	1 048	1 020
Programme loans	615	610	601	586	570	552	531	511	490
Project loans	393	444	491	535	547	548	546	537	530
United States wheat credits (PL 480)	103	97	92	87	81	76	70	64	63
United States Export-Import Bank	320	543	685	817	886	929	929	931	980
Others ^b	257	457	561	732	780	1 050	1 143	1 440	1 637
Suppliers credits	1 442	1 812	1 980	2 414	3 773	5 343	5 673	5 651	5 500
Financial credits	7 849	11 211	14 561	18 194	21 528	29 500	34 625	37 820	45 735
Other credits	276	263	248	233	219	205	191	172	165

Source: Central Bank of Brazil: Boletim, vol. 16 N° 7, July 1980, Relatório anual 1980, and Informarivo Mensual, N° 18, January 1982.

^aIncludes the International Finance Corporation.

^bIncludes the Canadian Wheat Board, the Export-Import Bank of Japan, the Kreditanstalt für Wiederaufbau, the National Bank of Denmark and OPIC.

³⁶Resolution 63 allows commercial banks to procure resources from abroad, while Law 4.131 makes it possible for non-financial enterprises to obtain loans abroad.

Table 22

BRAZIL: COEFFICIENTS OF THE EXTERNAL DEBT

	1970	1973	1974	1975	1976	1977	1978	1979	1980	1981
Millions of US dollars										
Loans and financing	1 494	4 754	7 052	7 244	10 093	8 840	14 222	12 063	13 144	16 700
Debt service	1 476	2 577	2 595	3 666	4 814	6 226	8 122	10 713	13 013	17 000
payments	1 242	2 063	1 943	2 168	3 004	4 123	5 326	6 527	6 702	7 800
Principal	234	514	652	1 498	1 810	2 103	2 696	4 186	6 311	9 200
Interest										
Coefficients of the debt (percentages)										
DS	48.1	38.4	30.0	38.3	43.7	47.3	58.8	64.0	59.4	65.6
X										
DS	98.8	54.2	36.8	50.6	47.7	70.4	57.1	88.8	99.0	101.8
LF										
D	11.5	16.1	17.5	18.7	20.8	21.9	23.0	24.4	22.7	24.2
GDP										

Source: Central Bank of Brazil, *Relatório Anual*, 1975, 1978, 1980 and *Informativo Mensual*, Nº 18, January 1982.

Note: DS = Debt service.
 X = Exports of goods and services.
 LF = Loans and financing.
 D = Total debt outstanding, public and private.
 GDP = Gross domestic product.

^aPreliminary figures.

^bMedium- and long-term credits.

The debt service continued to grow rapidly during 1981, however, rising more than 30% to US\$ 17 billion: more than double the figure recorded barely three years before (see table 22). Most of the increase in the cost of servicing the debt was due to the marked expansion of net payments of interest, which rose by 46%. Payments of principal also increased significantly (16%).

Especially because of the rapid increase in payments of interest, the debt servicing exceeded for the first time the inflow of medium- and long-term credit into the country. Furthermore, the ratio between debt servicing and the value of exports of goods and services continued in 1981 to display the upward trend which had been nearly uninterrupted since 1974, so that two-thirds of the exports of goods and services were needed to cover payments of principal and interest (see table 22).

4. Prices and wages

(a) *Prices and anti-inflationary policy*

The priority given by economic policy to combating inflation took on much stricter features in the second half of 1980. Thus, in 1981 the so-called policy of gradualism —the predominant orientation during the 1970s— was abandoned, and greater emphasis was placed on the use of monetary measures and instruments in the design of the stabilization policy. This was accompanied by greater control over public spending, while prices and tariffs of State enterprises were readjusted and price controls reduced considerably.

The restrictive monetary and fiscal policies fostered a contraction in domestic demand, which affected levels of activity and caused a substantial increase in interest rates. These factors stimulated the reduction of stocks, and all this helped to attenuate inflationary pressures.

The prices and tariffs of public enterprises were significantly increased so as to reduce their deficits and, as a result, the transfers normally made to them by the Central Bank. The most significant cases were electricity rates and the prices of petroleum products. In the first case, an attempt was made to increase the profitability of the enterprises in this branch, by facilitating the financing of ambitious investment programmes begun in previous years. In the case of the prices of petroleum products, efforts were made to eliminate the subsidies financed by the Central Bank, which had been one of the main factors in the expansion of the monetary base in 1980. These measures caused an acceleration in the rise of prices in the early months of 1981, but subsequently helped to keep down inflationary pressures when the impact of these elements on the growth of the monetary base decreased.

Table 23
BRAZIL: EVOLUTION OF DOMESTIC PRICES

	1974	1975	1976	1977	1978	1979	1980	1981
December to December								
General price index ^a								
Total supply	33.8	30.1	48.2	38.6	40.5	76.8	108.5	92.8
Domestic availability	34.5	29.4	46.3	38.8	40.8	77.2	110.2	95.2
Wholesale price index								
Total supply	34.1	30.6	48.1	35.3	42.3	79.5	118.7	90.5
Agricultural products	31.2	33.7	67.0	34.2	47.6	80.5	138.2	70.7
Industrial products	35.6	39.2	40.3	35.5	39.9	78.8	110.3	99.7
Domestic availability	35.4	29.3	44.9	35.5	43.0	80.1	121.3	94.3
Raw materials	44.2	29.4	38.0	28.4	35.2	76.3	110.7	86.1
Foodstuffs	37.4	33.0	50.1	37.5	51.9	84.8	130.8	85.9
Consumer price index								
Rio de Janeiro	33.8	31.2	44.8	43.1	38.1	76.0	86.3	100.6
Food	41.4	26.2	47.1	43.9	44.4	86.4	90.9	96.0
Clothing	17.0	14.6	40.8	29.5	21.7	37.5	69.6	72.8
Housing	28.2	52.8	50.8	42.5	36.6	48.4	65.5	79.1
Articles for the home	29.8	18.9	47.4	38.8	34.9	52.2	89.2	99.4
Health and hygiene	28.5	34.7	39.7	44.9	39.0	61.2	87.9	128.3
Personal services	33.2	33.1	43.7	50.4	28.8	91.2	91.8	116.3
Public services	27.1	41.3	28.5	38.6	38.6	104.2	91.7	115.1
Construction costs								
Rio de Janeiro	31.8	24.1	58.6	44.7	37.0	63.1	113.0	86.1
National consumer price index	...	...	...	...	...	...	95.3	91.2
Variation between annual averages								
General price index								
Total supply	28.9	27.9	42.8	43.7	37.9	54.3	98.4	106.8
Domestic availability	28.7	27.7	41.3	42.7	38.7	53.9	100.2	109.9
Wholesale price index								
Total supply	29.3	29.4	36.3	39.3	37.5	55.9	106.5	108.2
Domestic availability	29.1	37.8	40.4	40.6	38.9	55.4	109.2	113.1
Consumer price index								
Rio de Janeiro	27.7	29.0	41.9	43.7	38.6	52.7	82.8	105.6
Construction costs								
Rio de Janeiro	29.5	25.1	44.2	51.0	37.9	49.3	96.9	101.0
National consumer price index								100.0

Source: Getulio Vargas, Foundation, *Conjuntura econômica*, and Central Bank of Brazil, *Informativo Mensual*.

^aThe general price index is a weighted average, of the wholesale price index (60%), the cost-of-living index for Rio de Janeiro (30%), and the cost of construction in that city (10%).

Table 24

BRAZIL: EVOLUTION OF DOMESTIC PRICES^a

(Percentages)

Year and quarter	General price index ^b	Wholesale price index ^b	Consumer price index for Rio de Janeiro	Cost of construction in Rio de Janeiro
1978				
I	9.6	10.4	8.7	8.4
II	10.6	11.0	9.9	9.8
III	8.3	8.3	8.4	8.3
IV	7.3	7.8	6.7	6.7
1979				
I	13.7	13.6	14.1	13.6
II	9.9	9.6	9.6	11.8
III	18.9	19.9	17.7	16.3
IV	19.2	20.5	19.5	10.3
1980				
I	18.0	18.4	13.7	29.3
II	19.0	21.6	15.3	14.4
III	22.1	23.3	17.8	26.7
IV	22.6	24.8	20.7	13.7
1981				
I	24.1	23.9	22.8	29.7
II	17.0	17.1	18.2	9.5
III	17.8	15.8	21.7	21.0
IV	14.1	15.1	13.6	8.3

Source: Getulio Vargas Foundation, *Conjuntura Economica*, February 1982.^aQuarterly variations.^bUsing the concept of domestic availability.

The substantial reduction in price controls also caused inflationary pressures in the early months of the year, since many articles with substantial weight in the price index had previously been controlled by the Inter-Ministerial Council on Prices (CIP). Subsequently, price increases in these areas gradually slowed down to some extent, in direct relation to the economic recession.

The general price index, considered from the point of view of domestic availability (IGP-DI)³⁷ increased by 95.2% in 1981, i.e., rather less than in 1980 (110.2%) (see table 23).

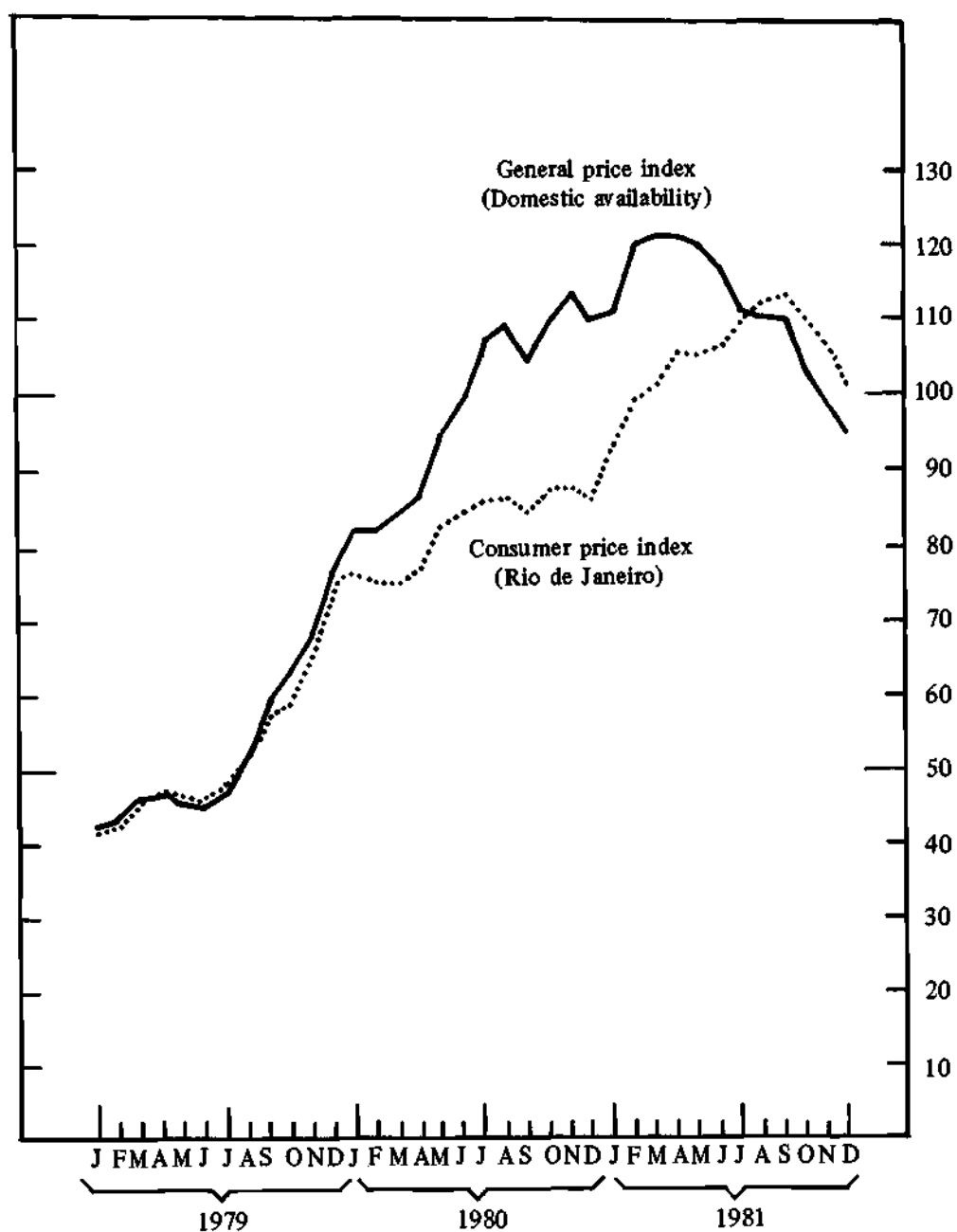
When these data are analysed by month or by quarter, however, it may be seen that the reduction of inflation was considerably greater. In the early months of 1981 the accumulated growth of prices over the previous twelve months continued to rise, reaching its highest value in March; subsequently, it began to decrease gradually until the end of the year. The quarterly price variations, for their part, show that in the last three months of 1980 inflation attained a rate of 22.6% (which in annual terms meant 126%), rising even more during the first quarter of 1981, when an increase of 24.1% (equivalent to an annualized rate of 137%) was registered. From the second quarter onwards, however, there was a marked deceleration of the inflationary process, so that in the last three months of the year the increase was only 14.1%, equivalent to an annual rate of 70% (see table 24 and figure 4).

The downward trend in the inflation rate occurred despite the fact that, as from July, there was a relaxation in the strict monetary policy that had been applied since the second half of 1980.

One factor which had an important influence on the above-mentioned trend was the slower growth in agricultural prices (70%), which had registered extremely sharp rises in 1980 (138%).

³⁷This index is calculated by the Getulio Vargas Foundation and is a weighted average of the wholesale price index (60%), the cost-of-living index for Rio de Janeiro (30%) and the cost of construction in that city (10%).

Figure 4
BRAZIL: VARIATIONS IN DOMESTIC PRICES OVER TWELVE MONTHS



Source: ECLA, on the basis of official data.

This was partly due to the contraction in domestic demand caused by the fall in the real income of large sectors of the population and partly to the increased production of several essential items.

The anti-inflationary policy did not achieve more significant results because of the inertia introduced by the generalized system of indexation which had been instituted several years before for the purpose of correcting distortions due to inflation and which in 1981 continued to be applied to the assets and liabilities of the financial system, real estate rents, legal obligations, the exchange rate and wages in both the public and private sectors. The respective readjustment coefficients were fixed in 1981 on the basis of past inflation, and hence varied between 95% and 100%.

(b) *Wages*

Wage policy was altered significantly in 1981. Beginning in January, the system of six-monthly readjustments which had been set up in November 1979 was changed, and under the new system wages were adjusted in the following way in 1981:

- Workers earning up to 3 minimum wage units received an increase of 110% of the increase in the consumer price index (CPI);
- Workers in the range of 3 to 10 minimum wage units, 100% of the CPI increase;
- Workers in the range of 10 to 15 minimum wage units, 80% of the CPI increase;
- Workers in the range of 15 to 20 minimum wage units, 50% of the CPI increase;
- Workers earning above 20 minimum wage units received no increment.

Wages rises for increased productivity were given on the same terms as under the previous law.

The new measures obviously affected workers in the higher income levels, especially those earning more than 15 minimum wage units, since previously those earning more than 15 minimum wage units were entitled to receive 80% of the CPI increase in respect of that part of their wages over 15 minimum wage units, whereas under the new law they received only 50% in respect of the part between 15 and 20 minimum wage units and no increase at all in respect of the part over 20 minimum wage units.³⁸

Another important decision adopted during 1981 involved the readjustment of the minimum wage in the southeastern and southern regions, where it is the highest in the country, in a different way from that provided for in the wage legislation of November 1979. Thus, both in May and November, the minimum wages in those regions were readjusted by only 100% of the national CPI increase.³⁹ In previous readjustments, 110% of the CPI variation had been granted, applying a mechanism similar to that of the wage legislation, which continued in force in 1981 for other regions of the country.

This change in the criteria for readjusting the minimum wage was due to the Government's aim of avoiding an increase in the level of unemployment of the unskilled labour force in the southeastern and southern regions, as well as of gradually eliminating the differences in minimum wages among the different regions.

The average wage of persons employed in industrial production in 1981 increased in real terms by 6%, the highest increase in the past five years (see table 25). This appears to have been caused by the combined effect of the dismissal of less skilled -and therefore less well-paid- workers and a decline of the inflationary process in the second half of the year.

The changes in the wage legislation did not have a particularly strong bearing on global wage levels, as they affected barely 1.5% of the total number of wage-earners, receiving 11% of the total amount of wages and salaries paid out.⁴⁰ Furthermore, although to a lesser extent than in 1980, the adjustments effected in 1981 included productivity increases, which were added to those granted to

³⁸The Government's justification for changing the law was the need to check the high incidence of turnover and unemployment at the better-paid levels of the work force.

³⁹The wage legislation provides that the minimum wage will continue to be fixed by the Government.

⁴⁰Data estimates by PNAD (Pesquisa Nacional de Amostragem Domiciliares).

offset the rise in prices.⁴¹ In the last months of 1981, however, these increases went down substantially as a result of the increase in unemployment, which reduced the workers' bargaining power, and also as a result of the economic difficulties faced by businesses because of the recession.

The real minimum wage increased in São Paulo (3.7%) and Recife (4.9%), but decreased in Rio de Janeiro (-1.3%), Belo Horizonte (-1.7%) and Porto Alegre (-4.9%) (see table 26). The increase recorded in Recife was due to the fact that the minimum wage in the metropolitan area of that city was readjusted by 110% of the CPI. The increase in São Paulo is attributable to the fact that consumer prices in that city rose less than the national CPI, while in Rio de Janeiro, Belo Horizonte and Porto Alegre the opposite occurred.

5. Monetary and fiscal policy

(a) *Monetary policy*

In 1981 the monetary policy continued the line adopted in the last quarter of the previous year, when the resurgence of inflation and the aggravation of the difficulties in the balance of payments which had arisen during 1980 gave rise to a much more drastic stabilization policy, which placed greater emphasis on the use of monetary measures and instruments.

This policy contained two basic elements: on the one hand, severe restriction of the expansion of the monetary base and the means of payment, for which strict growth ceilings were set in the monetary budget, much lower than the rate of inflation at the end of 1980, and on the other hand, encouragement of procurement of external resources by the commercial banks, for the purpose of obtaining resources to finance the current account deficit.

Various instruments were used for accomplishing these goals. In the first place, efforts were made to reduce the fiscal deficit, especially by decreasing the amount of the subsidies implicitly granted by the monetary authority through the so-called "open accounts"⁴² or through preferential credits granted at negative real interest rates.

In the second place, limits were set on the expansion of banking credit, which could increase by only 50% during 1981 although, as was traditional, exceptions to this limit were made regarding credits for agriculture, exports of manufactured goods and the National Alcohol Fuel Programme (PROALCOOL), and credits granted on the basis of procurement of external resources by commercial banks. However, some limits were placed on credit to agriculture in 1981, when it was laid down that, for medium-sized and large producers, only 80% and 60% respectively of the production cost would be financed. In previous years up to 100% was financed: a situation which in 1981 was maintained only for small producers.

In the third place, interest rates were freed —and rose significantly—⁴³ except in the case of those on credits for the priority activities mentioned above, and the system of fixing the index of monetary correction on the basis of the inflation actually recorded in the recent past was restored, thus finally abandoning the mechanism of pre-fixing the annual increment established in 1980.⁴⁴ These measures enabled time and savings deposits to increase substantially and facilitated the sale of Government bonds. Similarly, the increase in active interest rates helped to restrict the use of credit for non-priority activities.

⁴¹The increases for productivity instituted by the wage legislation are adjustments established by negotiation between workers and employers, or set by the Government when there is no agreement between the parties. Therefore, in practice this criterion has no connection with the actual evolution of productivity.

⁴²In practice these are non-reimbursable credits from the monetary authority to the Federal Government, and actually represent a form of public expenditure.

⁴³Substantial rises and variations among the different rates were recorded. The highest rates were those charged on consumer loans, which at the end of 1981 rose to an annual rate of 194% on six-month loans, whereas in October of the year before, before the elimination of controls, they had been 99%.

⁴⁴It was initially fixed at 45% for the whole of 1980; this percentage was subsequently raised to 50% for the period July 1980 to June 1981.

Table 25

BRAZIL: AVERAGE WAGES IN INDUSTRY

Year	Average nominal wage		Consumer price index ^a		Average real wage	
	Index	Variation	Index	Variation	Index	Variation
1976	100.0		100.0		100.0	
1977	150.3	50.3	146.9	46.9	102.3	2.3
1978	226.0	50.4	210.6	43.4	107.3	4.9
1979	356.3	57.7	327.3	55.4	108.9	1.5
1980	685.8	92.5	620.6	89.6	110.5	1.5
1981	1 488.9	117.1	1 271.7	104.9	117.1	6.0

Source: Getulio Vargas Foundation; *Conjuntura Econômica*, February 1982.

^aCalculated on the basis of a simple average of the consumer price indexes for Rio de Janeiro, São Paulo, Belo Horizonte and Porto Alegre.

Table 26

BRAZIL: COST OF LIVING AND MINIMUM WAGES

Major cities	Indexes (1978 = 100)			Growth rates		
	1979	1980	1981	1979	1980	1981
Nominal wages						
São Paulo	152.1	285.2	578.6	52.1	87.5	102.9
Rio de Janeiro	152.1	285.2	578.6	52.1	87.5	102.9
Belo Horizonte	152.1	285.2	578.6	52.1	87.5	102.9
Porto Alegre	152.6	302.5	622.7	52.6	98.2	105.8
Recife	153.6	298.6	622.0	53.6	94.4	107.6
Cost of living						
São Paulo	134.2	267.5	523.6	34.2	99.3	95.8
Rio de Janeiro	152.7	279.1	573.7	52.7	82.7	105.6
Belo Horizonte	164.1	335.9	693.0	64.1	104.7	106.3
Porto Alegre	152.9	293.7	622.8	52.9	92.1	112.0
Recife	163.1	325.3	644.0	63.1	99.4	98.0
Real wages						
São Paulo	101.3	106.6	110.5	1.3	5.3	3.7
Rio de Janeiro	99.6	102.2	100.9	-0.4	2.6	-1.3
Belo Horizonte	92.7	84.9	83.5	-7.3	-8.4	-1.7
Porto Alegre	99.8	103.0	100.0	-0.2	3.2	-2.9
Recife	94.2	91.8	96.3	-5.8	-2.5	4.9

Source: ECLA, on the basis of data supplied by the Central Bank of Brazil and the Getulio Vargas Foundation.

Sales of Government bonds increased considerably in 1981, the aim being to achieve strict fulfilment of the goals regarding expansion of the monetary base and, at the same time, to foster a better balance in the public finances. However, within the context of a policy of liberalizing interest rates, these greater sales of Government bonds favoured a further rise in interest rates on the domestic market.

The objective of stimulating the procurement of external resources on the part of the commercial banks was consistent with the higher domestic interest rates, and the rate of devaluation of the cruzeiro was oriented in the same direction. No limit was placed on domestic credits granted on the basis of these resources, which was why they were able to increase so substantially. However, the high external interest rates and the requirements of the exchange

policy itself, whose objective was to promote exports, prevented the inflow of these external resources, through the national banking system, from helping to attenuate the rise in domestic interest rates.⁴⁵

The monetary policy described above was applied very restrictively during the first half of 1981, making it possible to reduce substantially the expansion of the means of payment, which increased by only 13.5% during that period, whereas in the corresponding period of the previous year they had increased by 23%.

In the second half, in contrast, there was a relaxation in this restrictive orientation, reflected in the evolution of the cumulative increase of the means of payment over 12 months, which in December 1981 came to 73%, thus slightly exceeding the expansion of the previous year (see tables 27 and 28). This change in the monetary policy in the middle of 1981 was connected, on the

Table 27

BRAZIL: PRIVATE SECTOR LIQUIDITY

(Percentage variation between end-of-December balance)

Year	M ¹	M ²	M ³	(M ³ - M ²)
1974	33.5	30.2	32.8	39.4
1975	42.8	44.6	47.4	54.1
1976	37.2	51.4	50.5	48.3
1977	37.5	45.8	48.8	55.6
1978	42.2	43.1	49.5	63.1
1979	73.6	58.2	60.3	64.9
1980	70.2	61.9	61.5	60.9
1981	73.0	72.8	92.9	111.0

Source: Getulio Vargas Foundation, *Conjuntura Economica*, vol. 36, Nº 2, February 1982; and Central Bank of Brazil, *Boletim*, vol. 18, Nº 1, January 1982.

Nota: M¹ = Means of payment = Currency outside banks + sight deposits in the monetary system.

M² = M¹ + sight deposits in the public savings banks + National Treasury Bonds (LTN) outside the monetary system.

M³ = M² + 50 per cent of time deposits, savings deposits, bills of exchange and real-estate bonds.

(M³ - M²) = Quasi-money.

Table 28

BRAZIL: MONETARY BASE AND MEANS OF PAYMENT

(Percentage variations)

	Monetary base		Means of payment	
	During year	Over last 12 months	During year	Over last 12 months
1980				
March	-4.3	67.2	-1.5	70.5
June	14.2	82.2	23.0	83.4
September	25.3	70.6	31.0	74.4
December	56.9	56.9	70.2	70.2
1981				
March	-0.2	63.6	-8.1	58.8
June	13.4	55.9	13.4	56.9
September	30.4	63.3	23.4	60.4
December	69.9	69.9	73.0	73.0

Source: Central Bank of Brazil, *Boletim*, March 1982.

⁴⁵The interest rates on these credits rose to around 160%.

one hand, with the rapid economic contraction observed and its resulting effects on employment and, on the other, with growing financial stability problems in the business sector and pressures caused by a fiscal deficit which was difficult to overcome and which could not be financed with still larger placements of Government bonds without causing an even greater deterioration in the country's levels of economic activity and employment. The evolution of the international reserves also had an influence on this change, as will be seen later.

Efforts to reduce the fiscal deficit were hampered by smaller tax revenue, the restoration of fiscal incentives for exports, the new demands for transfers to public institutions showing a deficit, the increase in subsidies for preferential credits,⁴⁶ and the rise in external interest rates and in the spreads over prime rates charged to Brazil to levels unheard-of in the past.

Faced with this situation, the authorities had to resort to increasing the monetary base, which went up by 48% in the second half of 1981, a rate that was a good deal higher than that recorded in the same period of 1980 (37%). Over the whole year the monetary base increased by nearly 70%, thus also exceeding the expansion recorded the year before (57%). The most significant factors of expansion of the monetary base were the loans to priority activities (agriculture, exports and PROALCOOL) and the credits to the Federal Government (see table 29). As already noted, loans for priority activities were not subject to the 50% growth limit and were granted at heavily subsidized interest rates.

Credits to agriculture for crop financing increased by 88%, which exceeded the expansion estimated in the budget (80%), even though the ceiling on financing the cost of crops was reduced in the case of medium-sized and large producers.

Credits to PROALCOOL, for their part, increased by 230%, whereas the budget had provided for an expansion of only 95%. This deviation was due to the momentum gained by PROALCOOL in the last quarter of 1980 and the beginning of 1981, for the purpose of ensuring a sufficient supply of fuel alcohol.

In the case of export credits, these increased by 178%, also going well beyond the initial prediction, which was 135%. This greater expansion was due to the significant increase in exports of manufactured goods.

Net credit to the public sector increased by 260 billion cruzeiros in 1981. An important part of this expansion was once more accounted for by credits to the Federal Government for "special operations" (122 billion cruzeiros), although the destination of those resources was different from that observed in 1980. Thus, in 1981 the petroleum account had a credit balance of 50 billion cruzeiros, whereas in 1980 it had recorded a deficit of 133 billion cruzeiros. This substantial change was due to the Government's policy of relieving pressure on the monetary accounts and the effective fiscal deficit, to which end prices of petroleum products were raised by substantially more than the exchange devaluation and the increase in international prices of crude oil. On the other hand, a deficit was shown by the accounts relating to payment of the external debt of public enterprises, financing of buffer stocks of meat, rice and milk, and the losses on sugar exports.

Another item which was important in the expansion of the monetary base was that of credits granted to the social security system (81 billion cruzeiros) to cover its high operating deficits. These credits were granted chiefly in the second half of the year, thus contributing to the big increase in the monetary base in that period.

Credits by the monetary authority to activities not defined as priority activities showed much smaller growth than that of the monetary base. In particular, loans by the Banco do Brasil for industry and trade increased by only 47%, that is to say, much less than the general level of prices.

Another factor of expansion was the increase recorded in the monetary authority's international reserves. Until July 1981, these reserves had shown a downward trend, as in previous years, representing a factor of contraction of the monetary base in the amount of 80 billion cruzeiros.

⁴⁶Although preferential interest rates increased (from 24% to 45% for agricultural credits and from 24% to 40% for pre-shipment credits in respect of exports of manufactures), the rates at which resources were procured by the monetary authority also increased.

From July onwards, however, they began to recover, and in December they reached a level higher than the balance for the previous year. The monetary expansion in the second half of the year for this reason was 190 billion cruzeiros, of which 147 billion corresponded to the month of December alone. Thus, expansion during the entire year on this account was 110 billion cruzeiros: a figure equivalent to 23% of the total increase in the monetary base.

Among the factors of contraction of the monetary base, an especially important role was played by the net sales of Government bonds (National Treasury Bonds [LTN] and Readjustable National Treasury Debentures [ORTN]), which were increased substantially in 1981 for the purpose of financing the fiscal deficit and the programmes of credit for priority activities. The total amount of Government bonds in circulation on 31 December 1980 came to 2 275 billion cruzeiros. This figure was nearly 270% greater than in the previous year and represented net sales of slightly more than 550 billion, which made it possible to reduce substantially the increase in the monetary base.⁴⁷

The sum total of LTN in circulation increased by 230%, while the ORTN grew by 360%. In order to expand sales of LTN it was necessary to raise substantially the discount rates on the bonds, so that the implicit rate of interest on them increased from 67% in December 1980 to 101% in

Table 29

**BRAZIL: FACTORS OF EXPANSION AND CONTRACTION
OF THE MONETARY BASE IN 1981^a**

	Variation	
	Amount ^b	Percentage
1. Factors of expansion	1 462	...
Credit to the public sector	261	...
Special operations	122	...
Social security	81	...
Public enterprises	33	...
Others	25	...
Credit to the agricultural sector	541	61.9
Crops	229	88.4
Minimum prices	92	121.9
Financing and purchase of coffee harvest surplus	92	93.2
Marketing of wheat	65	...
Others	63	...
Credit to PROALCOOL	106	230.0
Credit to exports	276	177.7
Other credit by the Banco do Brasil	157	46.6
International reserves	110	...
Others	11	...
2. Factors of contraction	984	...
Net sales of Government bonds	552	...
Time deposits	91	...
External reserves	341	...
3. Monetary base^c (1-2)	478	68.3

Source: Central Bank of Brazil, *Informativo Mensual*, January 1982.

^aPreliminary figures.

^bVariation between balances at 31 December 1981 and 31 December 1980, in billions of cruzeiros.

^cPrimary emission by the monetary authority (Central Bank and Banco do Brasil), plus deposits by the rest of the banking system in respect of compulsory cash reserves.

⁴⁷Had it not been for this fact, the monetary base would have increased by 154%, instead of the 70% increase which actually occurred.

Table 30

BRAZIL: MONETARY BALANCE^a

	Variation	
	Amount ^b	Percentage
1. Assets	2 698	109.5
Credit	3 453	102.8
Federal Government	780	174.9
Other	2 673	88.4
Banco do Brasil	853	60.9
Commercial banks	1 820	104.8
Subject to the 50% limit	461	53.3
Not subject to limit on expansion	1 359	156.1
Non-monetary financial system	77	67.9
Variation in international reserves	110	...
Others net assets	-865	...
2. Liabilities	1 699	139.2
Time and savings deposits	335	182.1
Foreign currency liabilities	358	141.2
Federal Government bonds outside banking system	473	128.1
Commitments to official financial bodies	533	126.0
3. Means of payment (1-2)	999	73.0

Source: ECLA, on the basis of data from the Boletim of the Central Bank of Brazil.

^a Preliminary figures.

^b Variation between balances at 31 December 1981 and 31 December 1980, in billions of cruzeiros.

December 1981. The greater sales of ORTN, for their part, were due to the restoration of monetary correction based on past inflation. The annual correction index, which in December 1980 was 51%, rose gradually during 1981 to reach 96% in the month of December: an increase which was practically equal to that of prices.

Other factors of contraction were the increase in time deposits in the Banco do Brasil, stimulated by the rise in interest rates on bank deposit certificates, and the effect of the inflow of external credits under the terms of resolution 63⁴⁸ (see table 29).

With regard to factors of expansion of the means of payment, apart from those which had an impact on the monetary base an important role was played by the growth of loans to the public sector and of credit by commercial banks for operations not subject to the 50% limit.

The total credit of the banking system increased in 1981 by around 103% over the December 1980 balance, with the largest increase being recorded in credit granted to the Federal Government (175%), while loans to the private sector grew by only 88% (see table 30). Credit to the private sector showed great disparity between operations subject to the 50% limit, where the goal was practically fulfilled, and those not subject to restrictions, which grew by 156%. These operations not subject to limitations consisted chiefly of the granting of credit with external resources procured through resolution 63.

Among the factors of contraction of the means of payment, one highly significant factor was the increase in the external debt of the commercial banks, under the above-mentioned mechanism of resolution 63, which made possible a contraction of nearly 360 billion cruzeiros, equivalent to 26% of the total means of payment at the beginning of the year. Another important factor was the increase in savings and time deposits, which nearly tripled, encouraged by the rise in the deposit rates of the commercial banks.

⁴⁸The external resources which enter the country under resolution 63 become the property of the commercial banks, but must remain deposited in the Central Bank for 90 days, during which time the Bank assumes the exchange risk and interest payment obligations.

For their part, loans by the non-banking financial sector⁴⁹ to the private sector increased by 120%, markedly exceeding those granted by the banking sector. The largest increases occurred in the credits from the National Housing Bank (156%), the real estate credit corporations (133%) and the Federal Savings Bank (132%). The lowest increases were those of the finance corporations (77%), because part of their operations remained subject to the 50% expansion limit (see table 31).

The evolution of loans from the non-banking financial sector to the private sector was favoured by the considerable increase (126%) in the procurement of resources by the former, especially through savings accounts (150%), which were encouraged by the restoration of monetary correction based on past inflation (see table 32).

(b) *Fiscal policy*

With a view to fulfilling their economic policy objectives, the authorities adopted a series of measures designed to reduce the fiscal deficit through decreasing spending in real terms and improving tax collection.

The policy of reducing fiscal spending had some encouraging results, since such expenditure showed a nominal increase of 84%, which in real terms meant a drop of slightly more than 12%.

Table 31

BRAZIL: LOANS BY THE FINANCIAL SYSTEM TO THE PRIVATE SECTOR

(Billions of cruzeiros)

	Balance at end of year				Growth rates		
	1978	1979	1980	1981	1979	1980	1981
Banking sector	1 029	1 731	2 948	5 581	68.2	70.3	89.3
Banco do Brasil	438	721	1 211	2 025	64.6	68.0	67.2
Commercial banks	591	1 010	1 737	3 556	70.9	72.0	104.7
Official	216	372	644	1 310	72.2	73.1	103.4
Private	375	638	1 093	2 246	70.1	71.3	105.5
Non-banking sector	1 063	1 723	3 070	6 753	62.1	78.2	120.0
Finance corporations	160	238	330	583	48.8	38.7	76.7
Investment banks	213	367	657	1 381	72.3	79.0	110.2
National Housing Bank (BNH)	48	84	180	460	75.0	114.3	155.6
Real estate credit corporations	142	238	462	1 077	67.6	94.1	133.1
Savings and loan associations	47	82	158	371	74.5	92.7	134.8
Federal Savings Bank	161	240	475	1 101	49.1	97.9	131.8
State savings banks	71	113	194	425	59.2	71.7	119.1
National Economic Development Bank (BNDE)	142	234	390	831	64.8	66.7	113.1
State development banks	68	109	192	429	60.3	76.2	123.4
Social Integration Programme	7	9	13	24	28.6	44.4	84.6
National Co-operative Credit Bank	4	8	20	70	100.0	150.0	250.0
Total	2 042	3 454	6 018	12 334	65.1	74.2	105.0

Source: Central Bank of Brazil, Boletim, March 1982.

⁴⁹The non-banking financial sector is composed of finance corporations (devoted exclusively to granting consumer credits), investment banks, the National Housing Bank (BNH), real estate credit corporations, savings and loan associations, the Federal Savings Bank, State savings banks, the National Economic Development Bank (BNDE), State development banks and the National Co-operative Credit Bank. These institutions do not work with sight deposits, except for the Federal Savings Bank and the State savings banks, which do so in an amount which is quite low (8%) in relation to the volume of their savings deposits.

Table 32

**BRAZIL: DEPOSITS AND OTHER INTERNAL LIABILITIES
OF THE FINANCIAL SYSTEM WITH THE PUBLIC**

(Billions of cruzeiros)

	Balance at end of year				Growth rates		
	1978	1979	1980	1981	1979	1980	1981
Banking sector	463	821	1 286	2 451	77.3	56.6	90.6
Sight deposits	369	636	1 076	1 865	72.4	69.2	73.3
Fixed-term deposits	94	185	210	586	96.8	13.5	79.1
Non-banking sector	583	980	1 760	3 971	68.1	79.6	125.6
Sight deposits	20	33	55	108	65.0	66.7	96.4
Savings deposits	289	523	985	2 461	81.0	88.3	149.9
Fixed-term deposits	132	224	429	905	69.7	91.5	111.0
Bills of exchange	131	187	275	471	42.8	47.1	71.3
Real estate bills	11	13	16	26	18.2	23.1	62.5
Total	1 046	1 801	3 046	6 422	72.2	69.1	110.8

Source: Central Bank of Brazil, Boletim, March 1982.

This behaviour was due to the considerable decline in real terms of the subsidies paid by the monetary authority (-31%)⁵⁰ and of outgoings in other areas of expenditure (-20%) (see table 33). The reduction of the latter was partly connected with government efforts to decrease investment expenditure, although this was not always achieved because of prior commitments, the lack of proper medium-term programming of public investments, and shortcomings in the control mechanisms.

Wages and social security, expenditures,⁵¹ in contrast, increased slightly in real terms, reflecting some degree of inertia, difficult to change in the short term, due *inter alia* to the indexing policy applied in the area of wages.

Contributions to assistance funds for States and municipalities increased significantly in real terms (8.6%) because of the priority given by the Federal Government to local authorities.

Transfers from the Federal Treasury to public enterprises again grew considerably (15% at constant prices), revealing the Government's difficulties in reducing spending in this area.

Despite the measures adopted in 1981 for the purpose of improving tax collection, the results were not favourable. Thus, tax collection by the Federal Government had a nominal increase of 85.5%, which in real terms meant a contraction of 11.5% (see table 33). This decrease would have been greater still had it not been for the increase in revenue from the tax on financial operations, the rates of which were raised at the end of 1980, together with its extension to import operations, among others. Similarly, income tax performed relatively favourably due to the fact that payments made by businesses and physical persons in 1981 were determined in relation to their income of the year before.

Revenue from other taxes, on the other hand, was affected by the economic recession. Thus, the tax on industrial products decreased more than 9% in real terms, chiefly owing to the drop in industrial production. Collection of this tax was also affected by the restoration of the subsidy on

⁵⁰These subsidies are generally granted through "open accounts" in the monetary budget which in practice constitute non-reimbursable credits by the monetary authority to the Federal Government and therefore represent effective public expenditure. These subsidies include subsidies for credit and direct subsidies in respect of the supply of goods. Also included in this division are the transfers made by the monetary authority to cover the deficit of public institutions, as in the case of the social security system (INPS), or payments of external debt servicing commitments which some public institutions are not able to fulfil.

⁵¹The latter include only the social security expenditures directly effected by the Federal Government. They therefore exclude those covered by INPS (National Social Security Institute).

exports of manufactured goods, taking the form of the refund of this tax. The tax on imports showed a decrease of 25% in real terms as a result of the severe contraction of external purchases, especially of intermediate goods, which have the highest rate of taxation.

The consolidated fiscal deficit of the Federal Government³² in 1981 showed a nominal increase of 81%, which, measured at constant prices, meant a decrease of nearly 14%. This deficit amounted to 2.7% of the gross domestic product in 1981: a percentage which, although high, was much lower than the 4.4% recorded in 1980. The ratio between the deficit and total expenditures in current terms, for its part, was quite high (31.7%) and very similar to that recorded in 1980 (32.2%).

The National Treasury account showed a small surplus of 3 billion cruzeiros, which represented less than 0.1% of total expenditures. This clearly indicates that, on the one hand, the imbalance arose in those accounts administered by the monetary authority which actually constitute effective

Table 33

**BRAZIL: CONSOLIDATED INCOME AND EXPENDITURE
OF THE GOVERNMENT OF THE UNION**
(Billions of cruzeiros)

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
1. Current income	349.2	509.8	1 219.4	2 262.0	46.0	139.2	85.5
Tax income	309.6	445.1	958.2	1 837.2	43.8	115.2	91.7
Industrialized products	97.5	127.6	263.2	500.9	30.9	106.3	90.3
Income tax	95.5	150.3	307.0	640.4	57.4	104.0	108.6
Imports	23.9	34.1	87.7	138.3	42.7	157.2	57.6
Exports	0.1	0.2	19.3	12.4	100.0	9 550.0	-35.8
Fuels and lubricants	38.7	49.5	51.2	59.3	27.9	3.4	15.8
Financial operations	13.6	23.9	103.1	266.0	75.7	331.4	158.0
Others ^b	40.3	59.5	126.7	220.0	47.6	112.9	73.6
Other income	39.6	64.7	261.2	424.7	63.4	304.3	62.6
2. Total expenditures	...	671.4	1 798.9	3 310.1	...	167.9	84.0
Wages and social security expenditure	...	167.6	336.9	719.8	...	101.0	113.7
Contribution to assistance funds	...	50.5	97.7	222.7	...	93.5	127.9
Transfers from the Treasury to public enterprises	...	135.2	380.2	916.5	...	181.2	141.1
Subsidies paid out by the monetary authority	...	181.9	896.4	1 303.2	...	392.9	45.4
Other expenditure	...	136.2	87.7	147.9	...	-35.6	68.6
3. Result	...	-161.6	-579.5	-1 048.1	...	258.6	81.0
Treasury surplus	4.9	2.3	2.0	3.0	-53.1	-13.0	50.0
Result of accounts administered by the monetary authority	...	-163.9	-581.5	-1 051.1	...	254.8	80.8
4. Financing of deficit	...	161.6	579.5	1 048.1	...	258.6	81.0
Public indebtedness	...	-78.6	-30.4	332.2	...	...	...
Monetary authority	...	240.2	609.9	715.9	...	153.9	17.4

Fuente: ECLA, on the basis of data from the Central Bank of Brazil (*Relatório Anual*, 1981, February 1982), and Carlos von Doellinger's article on consolidation of the Union's finances in *Conjuntura Económica*, vol. 36, Nº 2, February 1982.

^aPreliminary figures.

^bIncluding taxes on energy, minerals, road transport and others.

³²This consolidated deficit includes the results recorded on the Treasury account and the account of the monetary authority, which in reality may be considered to be fiscal accounts.

public spending and, on the other hand, that in 1981 there was a continuation of the problems arising from the lack of budget unity observed in previous years.

In 1981, 32% of the deficit was financed through the sale of government bonds (ORTN and LTN), while the other 68% was covered by the Monetary Authority, unlike previous years when the Central Bank absorbed the whole deficit (see table 33).

However, if the results recorded in the consolidated accounts of the Federal Government are added to the deficit of public enterprises—which is covered chiefly by credit from external sources—the problem grows considerably larger, since in this case the total public sector deficit would equal nearly 6% of the gross domestic product in 1981.⁵³ Even so, this proportion was lower than those observed in 1979 and 1980—which amounted to 8.1% and 7.3%, respectively—thus indicating a downward trend over the last three years.

⁵³See Carlos Von Doellinger's article on consolidation of the Union's finances over the period 1979-1982 in *Conjuntura*, Vol. 36, No. 2, February 1982.

COLOMBIA

1. Recent economic trends: Introduction and summary

As in the majority of Latin American countries, 1981 was an unfavourable year for the evolution of the Colombian economy. While the economic growth rate was the lowest in the past quarter of a century, the rate of inflation was the highest recorded in the same period, except for the rises noted in 1963, 1977 and 1979. At the same time, the terms of trade deteriorated, the value and volume of exports, decreased sharply, the balance-of-payments current account deficit trebled, and fiscal operations closed for the second year running with a considerable negative balance (see table 1 and figure 1).

During 1981, the gross domestic product increased by 2.5%. Not only did this rate show the continuation in that year of the steady and systematic loss of dynamism which began to affect the economy in 1979, but it also induced a virtual stagnation in the per capita product. Since the slackening in the rate of economic growth was accompanied by a drop in the terms of trade, per capita income fell slightly after having increased sharply during the boom in international coffee prices, from 1976 to 1979.

From a sectoral point of view, the drop in the growth rate of the gross domestic product reflected the loss of dynamism registered in 1981 by all the principal economic activities except the agricultural sector, which grew at a slightly faster rate than in 1980, and construction, which expanded for the second year running at a very high rate (8%). In contrast, the manufacturing product fell slightly in absolute terms after two years of moderate expansion, which induced a reduction in industrial employment and a drop for the third year running in the share of the manufacturing sector in the total product. During 1981 there was also a marked weakening of the growth rate of basic services, which up to 1979 had expanded with remarkable vigour.

Because of this slow evolution of the sectors producing goods and basic services, the increase in the gross domestic product was due primarily to the expansion of the other services, which, although accounting for 40% of the total product, generated nearly half the increase in it in 1981. Nevertheless, the growth rate of services, too, was substantially lower than it had been during the three preceding years.

Surprisingly, this marked and generalized decrease in the dynamism of the economy was accompanied by a drop in the average rate of unemployment in the main urban centres of the country. As may be seen from figure 1, between 1974 and 1980 the reductions in the percentage of jobless in the labour force systematically coincided with years when the economic growth rate accelerated, whereas in years such as 1979 and 1980, in which the economic growth rate fell, the rate of unemployment rose. In 1981, in contrast, official figures show that the rate of unemployment fell significantly at a time when, as already noted, the growth of general economic activity weakened. The main explanation for these opposing trends in production and unemployment was the marked drop registered in 1981 in the rates of participation in the majority of the main urban centres. Thus, these rates dropped sharply in Bogotá, Medellín and Cali —the three cities where there was also a marked reduction in the rate of unemployment— whereas participation rose in Barranquilla, which was the only major city where the rate of unemployment increased. Thus, the drop in the rates of urban unemployment really reflected the withdrawal by a significant proportion of the labour force from the active quest for work, rather than a significant improvement in the employment situation.

Just as in the case of economic growth, the 1981 results were poor as regards inflation and wages and salaries. Thus, during the year consumer prices rose by nearly 27%, thereby repeating

their performance of the previous year, while wholesale prices increased by 23.5%, i.e., only slightly less than in 1980. This stability in the level of inflation resulted partly from the indexation of certain key variables such as wages and salaries and the exchange rate (which, in the absence of exogenous disturbances, tend to induce the economy to reproduce each year the growth rate of prices it registered in the preceding period), while it also reflected the delayed effects of the relatively large expansion in the means of payment which occurred in 1980.

As the minimum legal wages were readjusted in January 1981 by a proportion equivalent to the inflation recorded during the previous year, and as this percentage was slightly lower than that

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	16 407	17 163	17 995	19 604	20 600	21 424	21 959
Population (millions of inhabitants)	23.2	23.7	24.2	24.7	25.3	25.6	26.4
Per capita gross domestic product (1970 dollars)	708	725	744	793	816	831	833
Growth rates							
B. Short run economic indicators							
Gross domestic product	3.8	4.6	4.9	8.9	5.1	4.0	2.5
Per capita gross domestic product	1.6	2.4	2.6	6.6	2.9	1.8	0.3
Gross income ^b	2.5	7.3	7.6	7.5	3.8	4.3	1.3
Terms of trade (goods and services)	-13.4	33.8	40.5	-17.1	-14.3	7.9	-13.5
Current value of exports of goods and services	14.7	30.0	22.8	16.1	14.7	9.9	-16.6
Current value of imports of goods and services	-2.1	14.5	18.9	23.7	14.2	40.1	7.5
Consumer prices ^c							
December - December	17.9	25.9	29.3	17.8	29.8	26.5	26.7
Variation between annual averages	23.8	19.9	34.8	17.1	24.7	27.2	28.1
Money	27.8	34.7	30.4	30.3	24.2	27.9	21.2
Wages and salaries ^d	-2.2	2.4	-5.0	11.4	6.5	0.9	0.9
Rate of unemployment ^e							
Current income of government	46.5	27.0	29.9	32.6	36.3	32.5	35.0
Total expenditure of government	35.6	12.6	29.9	35.8	38.9	50.3	31.6
Fiscal deficit/total expenditure of government ^f	2.3	10.2 ^g	10.1 ^g	7.5 ^g	5.5 ^g	7.0	4.5
Millions of dollars							
C. External sector							
Trade balance (goods and services)	109	459	655	551	646	-373	-1 724
Balance on current account	-126	193	435	294	490	-536	-1 969
Variation in international reserves	72	639	661	676	1 552	1 311	190
External debt ^h	2 540	2 636	2 843	2 962	3 524	4 243	4 896 ⁱ

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cNational index for manual workers.

^dReal wages of manual workers in manufacturing.

^eAnnual averages rate for Bogotá, Barranquilla, Medellín and Cali.

^fPercentage.

^gSurplus.

^hPublic and State-guaranteed private debt.

ⁱEnd of September.

of the average increase in consumer prices during 1981, the purchasing power of wages fell by a little more than 1%, after three years of steady and substantial rises. In 1981, the daily wages actually paid in the agricultural sector also dropped slightly and the average real wages of manual workers in manufacturing, remained at an almost total standstill, as had already occurred in 1980. Thus, in practice, the wages of non-manual workers in the industrial sector were the only ones which experienced a real increase, and small though this was (2.4%), it was distinctly higher than the increase in the per capita product.

During 1981 there were also significant changes in external economic relations. One of the most fundamental was the turnabout in the evolution of exports of goods and services, whose value, after nine years of steady and marked growth, fell by 17% in 1981. To a considerable extent, this decrease was a consequence of the negative changes in the external economic situation, especially in the world coffee market; not only was the world coffee surplus supply partly responsible for a drop in the average price of Colombian coffee from US\$ 1.79 a pound in 1980 to US\$ 1.45 in 1981, but it also made it necessary to reduce the quota assigned to Colombia under the International Coffee Agreement, from 9.7 million bags to 8.3 million. Consequently, and in spite of the fact that the 1981 harvest amounted to the record level of 13.2 million bags, the volume of external sales of coffee fell by over 2 million bags compared with the preceding year. This, added to the lower international price of coffee beans, induced a drop of over 41% in the value of coffee exports.

In addition to this the value of foreign sales of manufactures declined by nearly 20%, resulting from the greater obstacles faced by manufactures in gaining access to the markets of the industrialized countries, the loss of competitiveness of some Colombian products because of the rise in costs generated in particular by the increase in interest rates, and the negative effects of the drop in the effective real rate of exchange brought about by the revaluation of the dollar *vis-à-vis* the main European currencies. The impact of these adverse factors was not completely outweighed by the various incentives provided for exporters, mainly by the Export Promotion Fund (PROEXPO) (in such fields as credit, administrative facilities, technical assistance, transport, insurance and market analysis).

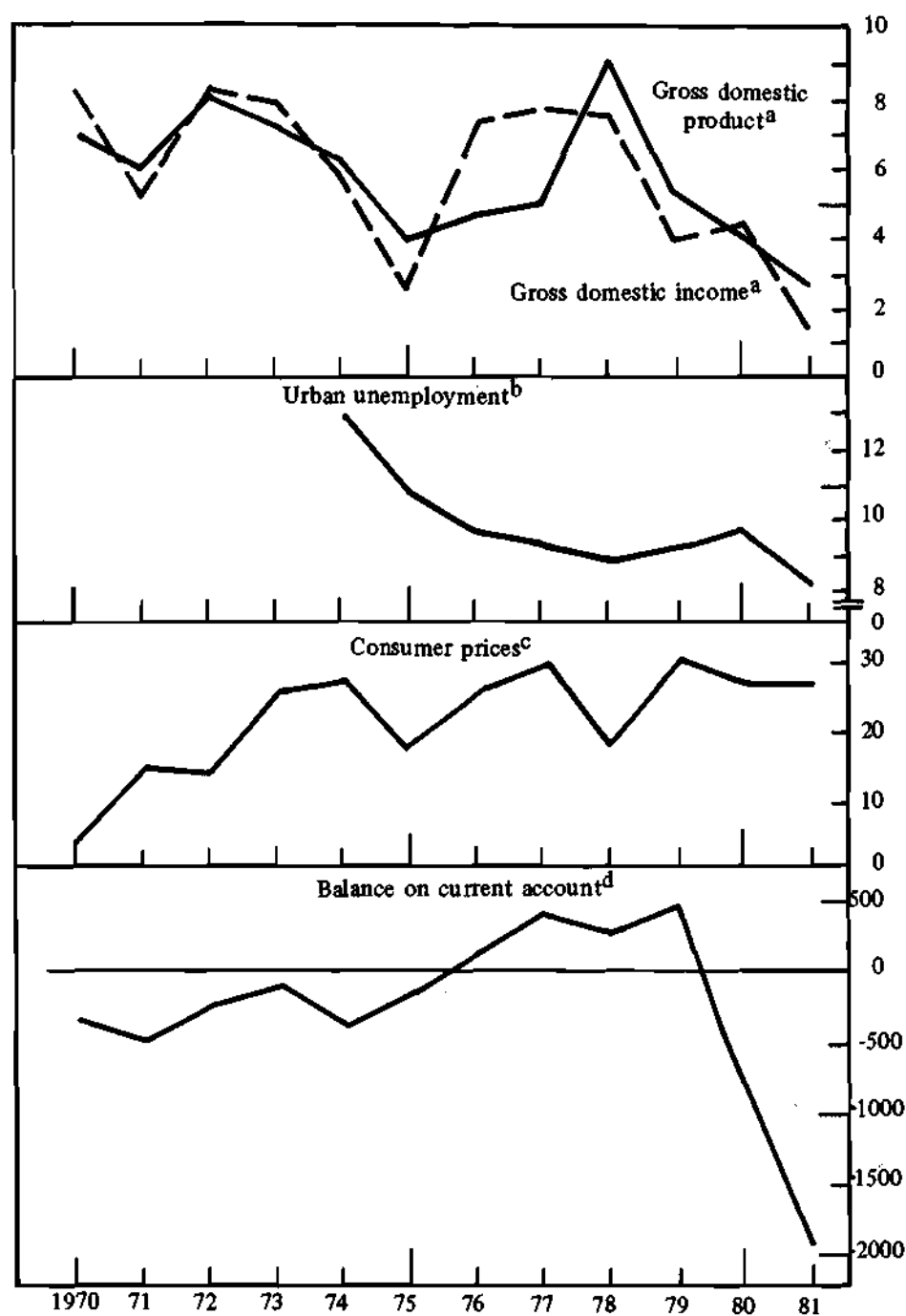
For their part, imports of goods and services —which had been growing with exceptional vigour since 1977— expanded much more slowly in 1981. Although their value rose to the record level of slightly over US\$ 5.9 billion, this represented a growth rate of only 7.9%, in sharp contrast not only with the 40% recorded in 1980 but also with the increases registered in the four preceding years (see table 1).

This marked reduction in the growth rate of imports resulted naturally from the loss of dynamism shown by domestic economic activity in 1981; part of it should also be related to some extent to the changes made in trade policy. Until 1980 the authorities promoted a greater external openness of the economy; as regards imports, it induced the transfer of many categories from the previous system of prior import licences to the system of free importation, a reduction of tariffs (especially for capital goods), and the granting of greater facilities for imports of passenger and cargo vehicles. But in 1981, this free import policy was not longer fully operative: no further reduction of tariffs was implemented, while some restrictive measures were adopted against imports of such categories as textiles.

The very uneven evolution of imports and exports in 1981 resulted in a trade deficit amounting to US\$ 1 725 million —the equivalent of 41% of exports of goods and services, and 4.6 times the size of the deficit recorded in 1980. This, coupled with a moderate rise in net payments of profits and interest, resulted in an unprecedented current account deficit of nearly US\$ 2 billion. Not only did this amount to three times the deficit recorded the preceding year but it also exceeded by US \$550 million the total surplus on current account accumulated during the coffee boom of 1976-1979 (see table 1).

This considerable expansion in the current account deficit was to some extent, however, a consequence of the very sharp increase registered for the second year running in the net inflow of capital. Thus, the net inflow of long-term capital, which had already passed the US\$ 1 billion mark in 1980, rose to US\$ 1 260 million in 1981. Of this, 51% consisted of net loans to the official sector,

Figure 1
COLOMBIA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate in Bogota, Barranquilla, Medellin and Cali.

^cDecember - December variation (per cent).

^dMillions of dollars.

17% corresponded to direct investments, and the remaining 32% entered the country as net loans to the private sector. The latter credits, which totalled more than twice the funds received the preceding year, were directed primarily to the development of mining projects, especially the Cerromatoso nickel mine. A large amount of short-term capital also entered the country, going in particular to the official sector.

As a result of these movements of capital, and in spite of the extraordinary size of the deficit on current account, the international reserves rose for the seventh consecutive year, amounting to over US\$ 5.6 billion at the end of 1981 —nearly as much as the total value of the imports of goods and services during that year.

The increase in international reserves was, however, much less in 1981 than in the five preceding years, and this was the main reason why the monetary authorities encountered fewer difficulties in controlling the increase in the issue of currency and means of payment during the year. Thus, because of the smaller pressure generated by the increase in the assets of the Banco de la República through the accumulation of international reserves, the Bank was not forced in 1981 to engage in open-market operations on the very large scale of those it had been compelled to conduct in past years in order to counteract the expansionary effect the increase in reserves had on the monetary base. Thus, the Banco de la República withdrew slightly less than 1 billion pesos through these reserves in 1981 —much less than the 9.4 and 18.5 billion pesos to which these transactions had amounted in 1979 and 1980, respectively. Moreover, the monetary authorities continued to encourage the policy of financial self-sufficiency of the development funds administered by the Banco de la República:¹ another factor which resulted in lowering the growth rate of issue of currency.

In addition, the credit policy *vis-à-vis* the private sector continued to be based on the principle of a self-sufficient supply of resources by financial intermediaries. To achieve this objective and also to combat the extra-institutional credit transactions which had been carried out, from 1980 on financial entities were allowed to negotiate their passive rates of interest with potential savings-account holders. One of the results of this measure was the rapid growth of bank deposits through time-deposit certificates, which, after rising by 170% in 1980, nearly doubled in 1981, this being partly responsible for the 39% increase in loans by the banking system. Another result, however, was a very considerable rise in interest rates which, in the view of the monetary authorities themselves, was higher than envisaged and tended to discourage investments.

From the point of view of monetary management, the more moderate expansion in international reserves made it possible in 1981 to consolidate one of the changes introduced the year before in fiscal policy. In order, to counteract the monetary expansion brought on primarily by the extremely rapid growth of reserves during the coffee boom, the authorities had tried to implement a policy of monetary restriction, as a result of which the public sector had had to sacrifice an appreciable proportion of its investment expenditure. In 1980, however, the public investment policy was substantially altered, because not only had the sacrifice led to a worrying deterioration in important sectors of basic social capital, but it was also incompatible with the National Integration Plan (PIN), one of whose priority objectives was precisely to extend and improve the country's basic infrastructure. This new policy was continued in 1981, when the Government went on increasing its expenditure on public investment faster than its current disbursements: while the former grew by close to 46%, the latter rose by only 27%.

This meant that in 1981 the growth rate of total central government expenditure decreased sharply, while its current income rose slightly faster than expenditure; even so, the fiscal deficit amounted to close to 5% of the actual expenditure of the fiscal sector for the second year running. Since this deficit was more than covered by external credit, as in 1980, the Government was again able to reduce its internal debt.

¹These include the Export Promotion Fund (PROEXPO), the Agricultural Finance Fund, the Industrial Finance Fund, the Fund for Private Investments, the Electricity Development Fund, and the Savings and Housing Fund.

2. Trends in economic activity

(a) *Global supply and demand trends*

In 1981 there was a sudden decline in the growth rate of total supply, which rose by only a little over 2%, compared with nearly 6% the year before. This decline was due both to the much slower expansion of the gross domestic product that year and to the sharp turnaround in the volume of imports of goods and services, which, after registering an exceptional rise of 26% in 1980, came to an almost complete standstill in 1981.

During the year the growth rates of all the components of total demand also dropped, particularly exports of goods and services; their volume, after having grown notably in 1979, already showed a slight decline in 1980, and dropped by over 12% in 1981, as a result of the sharp reduction in the volume of coffee exports and the lower real external sales of manufactures.

The loss of dynamism of economic activity was also reflected in the notable decline in private consumption, which increased by only a little over 1%, after having risen at an average rate of close to 5% in the two preceding years.

In these circumstances, as in 1980, the most dynamic component of demand was domestic investment. This variable, which had already risen by 14% that year, increased by close to 12% in 1981. This relative maintenance of the growth rate of capital formation was however decisively influenced by variations in stocks, since these nearly doubled primarily, as a result, of the addition of some 2.5 million bags of coffee to the already considerable stocks existing at the beginning of the year. In contrast, gross investment in fixed capital, basically boosted by the public sector, grew a little more than 6% —a rate only slightly over half that recorded the preceding year (see table 2).

Table 2
COLOMBIA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	22 304	23 573	24 119	109.8	109.8	5.0	5.7	2.3
Gross domestic product at market prices	20 600	21 424	21 959	100.0	100.0	5.1	4.0	2.5
Imports of goods and services ^b	1 704	2 149	2 160	9.8	9.8	3.7	26.1	0.5
Total demand	22 304	23 573	24 119	109.8	109.8	5.0	5.7	2.3
Domestic demand	20 566	21 885	22 640	101.7	103.3	3.8	6.4	3.5
Gross domestic investment	3 954	4 506	5 027	22.3	22.9	-1.0	14.0	11.6
Gross fixed investment	3 768	4 227	4 489	20.4	20.4	3.9	12.2	6.2
Construction	1 754	...	...	10.6	...	-3.9	...	...
Machinery and equipment ^c	2 014	...	...	9.8	...	11.8	...	...
Changes in stocks	186	279	538	1.9	2.5	...	...	...
Total consumption	16 612	17 379	17 613	79.4	80.4	5.0	4.6	1.4
General government	1 513	1 619	1 677	8.6	7.6	5.3	7.0	3.6
Private	15 099	15 760	15 936	70.8	72.8	5.0	4.4	1.1
Exports of goods and services ^b	1 738	1 688	1 479	8.1	6.5	21.3	-2.9	-12.4

Source: ECLA calculations, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for the purpose.

^cIncluding land improvement.

Table 3

**COLOMBIA: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	19 088	19 890	20 387	100.0	100.0	4.9	4.2	2.5
Goods	9 344	9 631	9 824	52.9	48.3	3.6	3.1	2.0
Agriculture, hunting, forestry and fishing	4 927	5 050	5 212	27.5	25.6	4.1	2.5	3.2
Mines and quarries	201	229	238	2.0	1.2	-0.6	14.2	4.0
Manufacturing	3 542	3 623	3 587	18.0	17.6	4.2	2.3	-1.0
Construction	675	729	787	5.4	3.9	-1.7	8.0	8.0
Basic services	2 159	2 271	2 334	9.1	11.4	7.6	5.2	2.8
Electricity, gas and water	349	375	385	1.5	1.9	10.0	7.2	2.7
Transport, storage and communications	1 809	1 896	1 942	7.6	9.5	7.1	4.8	2.8
Other services	7 586	7 987	8 226	38.0	40.3	5.8	5.3	3.0
Wholesale and retail trade	2 539	2 633	2 686	13.8	13.2	3.5	3.7	2.0
Financial institutions, insurance, real estate and business services	2 272	2 385	2 477	9.6	12.1	9.1	5.0	3.9
Ownership of dwellings	1 137	1 209	1 276	5.7	6.3	9.5	6.3	5.6
Community, social and personal services	2 775	2 969	3 064	14.6	15.0	5.3	7.0	3.2
Government services	1 249	1 336	1 379	7.0	6.8	5.2	7.0	3.2

Source: ECLA calculations, on the basis of official data supplied by the Banco de la República.

^aPreliminary figures.

^bAs the individual activities and the total were calculated independently, the sum of the former does not correspond with the latter.

(b) Growth of the main sectors

As in the previous two years, the goods-producing sectors registered in 1981 the lowest growth rates. Their overall product rose by 2%, whereas basic services increased by close to 3% and other services expanded at a slightly higher rate. The reduction in the growth rate of the goods-producing sectors was partially attributable to the slower expansion of mining and, above all, to the absolute decrease suffered in 1981 by manufacturing, whose share in the total product declined for the third consecutive year and was in 1981 slightly under the level recorded at the beginning of the previous decade (see table 3).

(i) *The agricultural sector.* In 1981 agricultural production rose by 3.2%, thereby exceeding the modest 2.6% increase achieved in 1980. This slight improvement was attributable especially to the bigger growth rate achieved in crop farming and, to a lesser extent, to the slight rise in the rate of expansion of the stock-raising sector (see table 4). The other activities in the sector, however — mainly land improvement and tree planting for timber — suffered a decrease of close to 1%.

The progress made in crop farming was aided by the more favourable weather conditions which prevailed during 1981. Partly because of this, yields increased and the application of fertilizers and insecticides turned out to be more efficient.

The acceleration of the growth rate of crop farming production in 1981 also reflected the more generalized expansion registered by its different components when compared to the two preceding years, when the higher production achieved was largely due to the very considerable increases in the harvest of coffee, the main crop. Thus, in 1979 the growth rate of coffee production (a little over 10%) was almost three times that of other crops, while in 1980 it was more than four times as great. In 1981, in contrast, the relative expansion in the production of coffee was only

slightly greater than that of crop farming as a whole, since whereas the latter rose from 2% in 1980 to slightly over 3% in 1981, the rate of expansion of the coffee harvest fell from 8.5% to 3.9%. Nevertheless, this growth led to a record 1981 coffee harvest of 13.2 million 60-kg bags: 66% more than the yield recorded in 1976, the first year in the coffee boom.

The volume of production achieved was more than enough to meet the 8.3 million bag export quota assigned to Colombia under the International Coffee Agreement, to sell approximately 700 000 more bags to countries not members of the International Coffee Organization and, finally, to meet the needs of domestic consumption, estimated at 1.7 million bags. It also meant, however, that in 1981 around 2.5 million bags were added to the country's coffee stocks, which at the end of the year amounted to close to 8 million bags. For this reason, during 1981 a credit policy aimed at discouraging new planting of coffee continued to be applied, and it was considered that restrictions should be imposed on attempts to produce coffee in marginal areas or areas suitable for the

Table 4
COLOMBIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of agricultural production (1970 = 100) ^c	147.1	153.0	156.0	162.0	8.8	4.0	2.6	3.2
Crop farming	152.1	158.0	161.5	164.0	9.3	3.9	2.0	3.1
Stock-raising	144.2	150.6	155.7	161.7	5.1	4.5	3.4	3.9
Production of the main crops ^b (thousands of tons)								
Rice	1 715	1 932	1 798	1 798	31.2	12.7	-6.9	-
Maize	862	870	854	880	14.5	0.9	-1.8	3.0
Sorghum	517	501	431	532	27.3	-3.1	-14.0	23.4
Wheat	38	42	46	62	-2.6	10.5	9.5	34.8
Raw cotton	330	282	353	366	-31.3	-14.5	25.2	3.7
Sesame	14	16	12	13	7.7	14.3	25.0	8.3
Soya	131	146	155	89	27.2	11.5	6.1	-42.6
African palm ^{cd}	49	62	70	80	14.0	26.5	12.9	14.3
Common beans	75	75	84	93	4.2	2.7	12.0	10.7
Potatoes	1 995	1 966	1 727	2 006	24.0	-1.5	-12.2	16.2
Yuca ^c	2 044	2 081	2 150	2 150	3.6	1.8	3.3	-
Cane for refined sugar ^c	1 026	1 096	1 189	1 122	20.1	6.8	8.5	-5.6
Cane for unrefined sugar (panela) ^c	912	984	988	935	8.8	7.8	0.4	-5.4
Coffee ^c	629	694	753	782	16.1	10.3	8.5	3.9
Bananas ^c	719	802	944	1 078	21.2	11.5	17.7	14.2
Tabacco ^c	47	60	47	49	-20.6	13.0	-21.7	4.2
Cattle production (thousands of head)								
Number of stock ^f	30 808	31 677	...	...	3.9	2.8	...	...
Number of animals slaughtered	2 480	2 586	...	...	6.5	4.2	...	...
Total number of animals taken out of heads ^g	4 553	4 971	...	...	4.7	9.2	...	...

Source: ECLA, on the basis of data supplied by the Ministry of Agriculture, the Banco de la República and the National Federation of Coffee-Growers.

^aPreliminary figures.

^bAgricultural year.

^cCalendar year.

^dProduction of oil pulp.

^eCoffee-growing year, 1 October to 30 September.

^fStock at the beginning of the year plus calves born during the year.

^gIncludes slaughtering, registered live exports, deaths, and non-registered slaughtering.

Table 5

COLOMBIA: INDICATORS OF MINING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Gross domestic product ^b	202	201	229	238	4.7	-0.5	13.9	3.9
Petroleum ^c	47.7	45.3	45.9	48.9	-5.0	-5.0	1.3	6.5
Iron ore ^d	453.5	378.0	491.0	411.0	-1.4	-16.6	29.6	-16.3
Gold ^e	257.6	265.6	497.0	516.6	-2.2	4.2	87.1	3.9
Silver ^e	83.4	93.5	140.5	133.3	-8.7	12.1	50.3	-5.1
Platinum ^e	14.9	12.9	14.3	14.8	-13.9	-13.4	10.8	3.5
Salt ^d	750.6	633.6	887.1	716.0	-18.6	-15.6	40.0	-19.3

Source: ECLA, on the basis of data supplied by the Ministry of Mines and Energy and the Banco de la República.

^aPreliminary figures.

^bMillions of dollars at 1970 prices.

^cMillions of 42-gallon barrels.

^dThousands of metric tons.

^eThousands of troy ounces.

cultivation of other commodities.² The scant rise in the average domestic price of coffee —only 9%, well below the growth rate of the general price index— also helped to restrict the expansion of coffee cultivation.

In the rest of the crop farming sector, cereal production amounted to a little over 3.3 million tons, thereby exceeding the 1980 harvest by 2.8% in spite of the fact that the rice crop, its main component, remained at 1.8 million tons. On the other hand, the maize harvest increased by 3%, after remaining nearly stagnant during the two preceding years. The sorghum and the wheat harvests, for their part, experienced extraordinary increases. With respect to the first of these crops, the increase of over 23% achieved in 1981 more than compensated for the decreases suffered in the two preceding years, while the rise of nearly 35% in the wheat harvest represented a continuation of the intensive growth recorded since 1979 (see table 4). Thanks to the increases in the maize and wheat harvests, maize imports have reduced by more than 130 000 tons, while wheat imports dropped by 20 000 tons.

In contrast with the favourable evolution of cereal production, the harvest of oilseeds declined by 10%, basically because of the very marked drop (-43%) in the production of soya. To counteract this decline and maintain an adequate domestic supply, the Agricultural Marketing Institute (IDEMA) purchased 16 000 tons of soya abroad and increased its imports of soya oil by 33 000 tons to a total of 111 000 tons.

Although in 1981 cotton production increased slightly, cotton-growers continued to face difficult financing conditions, dating back to the period 1978-1979, when the cotton harvest fell by over 40% because of adverse climatic conditions and pests. These afflictions were compounded by the difficult conditions facing cotton on the international markets in 1981 (which were partly responsible for the accumulation of appreciable domestic stocks) and by the problems due to the disparity between the prices paid by textile producers and the production costs claimed by cotton-growers.

As regards other crops, the good potato harvest made it possible to resume potato exports, while the 14% rise in banana production, achieved in spite of the outbreak of sigatoka disease which afflicted large areas of plantations, made it possible to increase exports by nearly 90 000

²In this connection, see the summary of the statement by the Chairman of the Fortieth National Congress of Coffee Growers (held at Bogotá early in December 1981), in the organ of the National Federation of Coffee Growers, *Economía Cafetera*, Vol. 11, No. 12, December 1981, p. 4.

tons. Finally, the production of the different types of sugar cane fell by close to 5.5 %, contributing to the drop of nearly 90 000 tons in sugar exports.

The increase of nearly 4% in livestock production was due primarily to the sharp expansion (12%) in the value added in the cattle-raising sector and, to a lesser extent, to the rises of around 6% in the production of milk, eggs and poultry, which more than compensated for the 9% decrease in pig-raising.

During 1981, the financial support provided to the sector through the Agricultural Finance Fund remained constant in real terms, since the loans extended to the sector increased by 28% at current prices, i.e., at a very similar rate to that of inflation. Of the total of 27.7 billion pesos loaned by the Fund, 52% were granted to finance semi-annual crops, vegetables and tobacco, while 16% went to land improvement, agricultural infrastructure works and the purchase of machinery and implements. During the year, the downward trend observed in previous years in the coefficient of utilization of agricultural credits gained further strength. Thus, the ratio between the credits used and the resources budgeted for that purpose, which had fallen from 94% in 1979 to 93% in 1980, further declined to 90% in 1981. At the same time, the allocation of credits was concentrated on crops requiring a large amount of technical inputs, such as cotton, irrigated rice and sorghum, which absorbed 78% of the total credits granted for semi-annual crops.

In order to provide a partial solution to this situation and give support to small and medium-sized producers, and taking into account furthermore that two-thirds of loan assistance is dispensed through the banking system and only one-third by the Agricultural Fund, efforts were made to encourage the banks to provide credits for the agricultural sector, and the technical and economic requirements which small and medium-sized producers must meet in order to make application for development credits were reduced. The regulations on credit were also expanded in order to assist certain priority activities of the sector, such as drainage and irrigation, and emergency measures were taken to help farmers who suffered severe losses as a result of floods in some regions.

(ii) *Mining.* During 1981 there was a marked reduction in the growth rate of mining, and after the exceptional expansion of 14% in 1980, the gross domestic product of the sector rose by only 4% in 1981. Even so, the mining sector—which in 1980 had been by far the most dynamic in the economy—grew in 1981 too at a rate well above that of the economy as a whole, and in fact construction was the only sector to register a higher growth rate (see table 3).

In contrast with what happened during the previous year, however, when there was a sharp increase in production in all the main categories of the mining sector except petroleum, in 1981 the increase in the mining product came primarily from the petroleum sector, while the extraction of iron ore and salt decreased sharply and that of silver registered a more moderate but still significant decline (see table 5).

The 6.5% growth rate of petroleum production (which reached a volume of nearly 49 million barrels) was undoubtedly the most salient feature of mining activity in 1981. This rise confirmed the change of trend which took place in 1980, when petroleum extraction increased slightly after having followed a continuous downward path during nearly the whole of the 1970s.

The reversal of this downward trend was due to a number of measures adopted by the Government in recent years in order to promote exploration and drilling by petroleum companies. Among these measures, one of the most important was the rise in the price of incremental crudes and crude from new deposits to the international level, CIF Cartagena. This decision gained a wider impact in 1981 when it was extended to crude derived from old wells, thus putting all the crude extracted on the same price level.

Partly owing to the new incentives received, the number of exploration wells drilled rose from 36 in 1980 to 61 in 1981, and the volume of the investments made exceeded US\$ 85 million. As a result of this increased exploration, important finds were made in the western plains area, and new operations were put into effect in the departments of Huila and Meta. During 1981, 111 development wells were also drilled (70% more than in 1980), and new association contracts were

signed between ECOPETROL and private petroleum firms in respect of a larger area than that covered by such contracts in 1980.³

In spite of the increase in the production of crude, domestic consumption needs made it necessary to import some 7.8 million barrels —7% more than the volume imported in 1980. This increase was, however, partly compensated for by the 15% decrease in imports of refined petroleum products.

During 1981 there was also an increase in the production of gold. Its growth rate was under 4%, however, which was much less than in 1980, when production nearly doubled as a result of the incentive provided by the sharp rise in the international price of gold. In contrast, the drop in this price from an average of US\$ 613 an ounce in 1980 to US\$ 460 in 1981 discouraged the efforts of small-scale miners, who account for over two-thirds of the total production of gold. Even so, the extraction of gold remained a very important activity for the generation of income in some areas offering few job opportunities in the departments of Antioquia, Chocó, Nariño, Caldas and Cauca. Moreover, the Banco de la República, which by law is the only purchaser of the domestic production of gold, continued to facilitate its purchase and to provide technical assistance for its extraction.

In 1981 the growth rate of the production of platinum also fell after making a partial recovery the preceding year, while there was a 5% decrease in the extraction of silver, which, like that of gold, had risen remarkably in 1980 under the incentive provided by the rise in its international price. The greatest decline occurred, however, in the production of iron ore, which fell by over 16% because of the decrease in demand caused by the 18% drop in steel production (see table 5).

During 1981 further progress was made in respect of the investments aimed at making it possible to exploit the large Cerromatoso ferronickel deposit, and work began on the El Cerrejón coal deposit.

The first of these, which is located in the Department of Córdoba, has nickel reserves estimated at 40 million tons and will go into production in the middle of 1982. It is estimated that in that year it will produce 7 200 tons of nickel, which could generate exports worth about US\$ 50 million. As of 1983, it is planned to raise its production to an annual average of rather more than 21 000 tons. The total cost of this mining and industrial project is nearly US\$ 395 million, of which US\$ 170 million will be supplied by shareholders,⁴ US\$ 120 million will come from loans granted by a group of 15 foreign and Colombian banks; US\$ 80 million has been supplied by the World Bank; and US\$ 25 million has been provided by EXIMBANK.

The El Cerrejón coal deposit, for its part, is located in the Department of Guajira, 30 kilometres from the border with Venezuela. The exploratory studies concluded in mid-1980 estimated the recoverable reserves at 1.6 billion tons and confirmed the viability of its exploitation. This will be an open-cut operation and will be initiated in 1983, but extraction will only assume significant proportions in 1986, when production is expected to reach seven million tons of coal. It should increase rapidly in the following years and exceed 20 million tons in 1990. During the fitting-out stage, which began in 1981 and is expected to last six years, investments amounting to slightly more than US\$ 2.9 billion will be required.

(iii) *Manufacturing.* In 1981 the manufacturing product fell by 1%. This drop came as the culmination of the loss of dynamism shown by the industrial sector in the two preceding years, when it grew at constantly decreasing rates after its extraordinary expansion of 8.7% in 1977 (see table 6).

Both internal and external factors were responsible for this decline in the industrial product. The most important of the internal factors was the progressively slower growth of private consumption, which, after rising by 5% in 1979 and by over 4% in 1980, rose by only 1% in 1981.

³As a result of this expansion and of the execution of the investment plan for new drillings and pipelines, the country is expected to return to self-sufficiency in the supply of hydrocarbons within a relatively short time.

⁴The shareholders are the Industrial Development Institute of Colombia, which holds 45% of the capital, Billiton International Metals of the Royal Dutch Shell group (35%) and Conicol, a subsidiary of Hanna Mining Company (20%).

This slackening resulted from a reduction of 0.4% in real sales in wholesale trade in the first ten months of the year and in the stagnation of retail sales, all of which affected the demand for industrial goods.¹

Another factor which had a negative effect on the manufacturing sector was the contraction of exports of industrial goods, which dropped considerably owing to the restrictive measures taken in the majority of the industrialized countries, and to the loss of competitiveness of Colombian manufactures caused by the rise in domestic production costs and the revaluation of the dollar against the main European currencies.

As a result, production fell in nearly all industrial branches. Thus, paper production decreased by 2%, that of the tobacco industry by 2.5%, that of the food industry (excluding coffee) by slightly more than 3%, that of printing and publication by 6% and that of furniture and industrial chemicals by 8.5% and 12.5%, respectively. During the year the production of plastics, non-metallic minerals, glass, non-electrical machinery and appliances and transport equipment also declined. On the other hand, there was a slight rise in the production of wearing apparel, the level of activity in the textile and leather and footwear industries rose by between 2% and 3%, there was an increase of between 6% and 7% in the production of the wood and electrical appliances industries, and a very sharp expansion (28%) in the output of non-ferrous metal products.

The decline in industrial activity was also reflected in the production of the main manufactures. Thus, the production of both steel ingots and motor vehicles fell by close to 18%. In the case of the latter, the drop came on the heels of another significant decline suffered in 1980,

Table 6

COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION
AND GENERATION OF ELECTRICITY

	Thousands of tons				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Gross domestic product ^b	3 398	3 542	3 623	3 589	8.7	4.2	2.3	-0.9
Sugar	1 027	1 107	1 248	1 212	17.8	7.8	12.9	-2.9
Cement	4 152	4 257	4 351	4 459	25.9	2.5	2.2	2.5
Steel ingots	265	234	263	217	26.8	-11.7	12.4	-17.5
Metallurgical coke	244	221	237	237	16.2	-9.4	7.4	-
Caustic soda	32	25	20	19	-11.5	-21.9	-20.0	-5.0
Carbonates	167	133	125	106	14.8	-20.4	-6.0	-15.2
Motor vehicles ^c	44.5	48.8	42.8	35.2	20.3	9.7	-12.2	-17.8
Motor cars	32.3	32.8	32.3	24.7	15.1	1.7	1.3	-24.1
Chassis	12.2	16.0	10.6	10.4	36.7	31.1	-34.5	-1.9
Petroleum products ^d	57	59	63	63	-5.0	3.5	5.1	-
Electricity consumption by industry ^e (millions of KWH)	3 470	3 697	3 800	3 141 ^f	10.9	6.5	2.8	0.2 ^f
Total generation	13 104	14 967	...	...	-2.4	14.2	...	...

Source: ECLA, on the basis of data supplied by the Banco de la República and the National Bureau of Statistics (DANE).

^a Preliminary figures.

^b Millions of dollars at 1970 prices.

^c Thousands of units.

^d Millions of barrels.

^e In the 24 largest cities.

^f January-October. Growth rate refers to same period in 1980.

¹For example, during the period January-November 1981 real retail sales of furniture and household electrical appliances fell by slightly more than 1% compared with the same period the preceding year, while those of building materials dropped by close to 3% and those of vehicles and spare parts by 5%.

Table 7

COLOMBIA: CONSTRUCTION PERMITS APPROVED

	Thousands of square metres				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Total area	7 126	6 093	5 941	-	11.3	-14.5	-2.5	-
Ten principal cities	5 808	4 859	4 653	5 166	18.2	-16.3	-4.3	10.0
Bogotá	2 457	2 014	1 893	1 913	1.4	-18.0	-16.0	1.1
Barranquilla	460	341	218	236	38.1	-25.9	-36.1	8.2
Bucaramanga	261	206	263	336	28.6	-21.1	27.7	27.7
Cali ^b	785	777	763	913	39.7	-1.0	-1.8	19.7
Cartagena	67	81	113	90	-46.4	20.9	39.5	20.4
Cúcuta	154	75	97	45	63.8	-51.3	29.3	-53.6
Manizales	255	237	163	188	74.6	-7.0	-31.2	15.3
Medellín ^c	1 255	950	1 033	1 357	42.2	-24.3	8.7	31.3
Neiva	39	121	42	29	-30.4	210.3	-65.3	-31.0
Pasto	74	58	69	58	-18.7	-21.6	18.9	-15.9
46 other cities	1 318	1 234	1 287	...	-11.5	-6.4	4.3	...
Total area of new housing	5 941	4 717	4 634	...	18.6	-20.6	-1.8	...
Ten principal cities	4 888	3 750	3 670	3 822	30.3	-23.3	-2.1	4.1
Bogotá	2 176	1 488	1 566	1 574	17.5	-31.6	5.2	0.5
Barranquilla	417	238	178	155	81.3	-42.9	-25.2	-12.9
Bucaramanga	212	180	236	289	22.5	-15.1	31.1	22.4
Cali ^b	639	676	563	764	45.9	5.8	-16.7	35.7
Cartagena	51	61	60	73	-39.3	19.6	-1.6	21.7
Cúcuta	125	58	53	29	119.3	-53.6	-8.6	-45.3
Manizales	220	192	136	155	59.4	-12.7	-29.2	14.0
Medellín ^c	975	704	787	710	45.7	-27.8	11.7	-9.8
Neiva	24	110	39	24	-52.0	358.3	-64.5	-38.5
Pasto	67	44	54	49	8.1	-34.3	22.7	-9.3
46 other cities	1 053	967	964	...	-16.3	-8.2	-3.1	...

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE).

^a Preliminary figures.

^b Includes permits approved in the Yumbo metropolitan area.

^c Includes permits approved in the metropolitan areas of Bello, Envigado and Itagüí.

while in the former, the decline marked the continuation of the extremely uneven growth pattern observed in the four preceding years. During 1981 there was also a considerable decline (-15%) in the production of carbonates, which had already decreased in the two preceding years; and for the fifth year running in the production of caustic soda decreased. The 3% drop in the production of sugar, for its part, interrupted the marked and sustained upward trend shown by this commodity in the preceding three-year period. Thus, the only one of the leading manufactures whose production expanded was cement, the output of which rose by 2.5% as in the previous two years (see table 6).

The evolution described above resulted in a decline equivalent to 4.4% in manufacturing sector employment and in the stagnation of the industrial consumption of electricity, which, after having grown by 11% in 1978, grew at steadily declining rates in the following years.

(iv) *Construction.* As already noted, construction was the only activity which maintained in 1981 the high degree of dynamism achieved the preceding year, since its product rose by 8%, thus duplicating its 1980 performance.

In the same way as in 1980, government activity constituted the primary driving force of the sector. Indeed, the investments made through the Ministry of Mines and Energy exceeded those made in 1980 by 51%, the majority of them being channelled towards the development of projects

aimed at electric power generation. The investments of the Ministry of Public Works, for their part, were 49% higher than the year before and served to make considerable progress in the maintenance, reconstruction and expansion of highways and other infrastructure works. At the same time, large works were carried out to improve the road systems in some urban centres, mainly the Special District of Bogotá.

The rapid growth of the construction sector was also stimulated by the recovery in building construction. Thus, the total floor area represented by the building licences approved in the ten main cities of the country grew by 10%, although it was still 11% smaller than in 1978 because of the decline suffered during the two preceding years (see table 7). The growth of non-residential building construction was particularly intense, and its area increased by 37%. The housing floor area increased by 4%, after having contracted sharply in 1979 and slightly in 1980. The cities where housing construction grew most vigorously were Manizales (where the area constructed increased by 14%), Bucaramanga and Cartagena (where the area grew by around 22%), and above all Cali (where the area was 36% greater than in 1980). In Bogotá, in contrast, housing construction remained almost stagnant, while it fell markedly in Medellín (-10%) and Barranquilla (-13%) and slumped for the third consecutive year in Cúcuta (-45%), reflecting the decrease in economic activity across the border with Venezuela.

During the year measures were taken to strengthen the resources of the Territorial Credit Institute by channelling to that institution that portion of the savings deposits reserves which the banking system and the Public Savings Bank must devote to the housing sector. These measures, together with the budgetary resources allocated, increased the volume of resources available for the construction and purchase of low-cost dwellings to 4.4 billion pesos, with which the Territorial Credit Institute began to build 40 000 dwellings of this type. Other measures were aimed at redistributing the composition of the portfolio of the savings and housing corporations, stipulating that 3% of it should be used to finance building materials industries; 82%, to purchase dwellings and 15% for other activities. This distribution also favoured medium and low-cost home loans, since it was laid down that 22% of the portfolio should be used to purchase dwellings whose price was 2 500 Constant Purchasing Power Units (UPAC) or less; 24%, dwellings costing between 2 501 and 5 000 UPAC; 18%, dwellings costing between 5 001 and 10 000 UPAC, and the remainder for the purchase of higher-price dwellings.⁶ In addition, a ceiling of 10 000 UPAC was established for individual loans.

(c) The evolution of employment

In spite of the scant expansion of overall economic activity in 1981, official figures indicate that the employment situation in the main urban centres apparently tended to improve. Thus, the average rate of unemployment in the four largest cities of the country taken together, which had stabilized at an average of 8.8% in the years 1978 and 1979 and later rose to 9.6% in 1980, fell to 8.2% in 1981. Indeed, unemployment only seems to have risen in Barranquilla (from 8.2% in 1980 to 11.2% in 1981). On the other hand, in Bogotá—the leading employment generation centre of the country—the coefficient of unemployment fell from an average of 8% in the preceding year to 5.5% in 1981, while in Medellín (a city where the highest rates of unemployment in the country had been recorded in past years) the unemployment figures fell steadily in 1981 from a maximum of nearly 16% in March to a little over 9% in December. The rate of unemployment also fell (although more moderately) in Cali, where an average annual rate of less than 9% was recorded for the first time (see table 8).

It is of course rather difficult to explain the downward trend in the rate of unemployment in a year of slow growth of the economy, when industrial production decreased slightly in absolute terms. Although the effect of this decline on urban employment was partially outweighed by the

⁶At present, however, the UPAC system leaves out vast sectors of the population, since their very small family incomes mean that even though the Government fixes a ceiling on the monetary readjustment applicable, they are unable to undertake to meet the loan repayment installments.

Table 8

COLOMBIA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1977	1978	1979	1980	1980				1981			
					March	June	September	December	March	June	September	December
Rate of unemployment	9.3	8.8	8.9	9.6	10.8	9.3	9.1	9.3	9.2	8.4	8.1	7.0
Bogotá	7.6	7.2	6.6	8.0	9.5	7.8	6.8	8.0	5.9	4.9	5.2	5.8
Barranquilla	8.8	7.7	6.2	8.2	9.2	7.5	7.8	8.2	12.3	11.8	11.6	9.0
Medellín	13.3	12.7	14.4	14.7	14.7	12.9	15.7	15.4	15.9	14.9	12.2	9.2
Cali	10.5	9.8	10.7	10.0	11.7	10.8	10.8	6.6 ^a	9.2	9.1	10.1	7.3
Bucaramanga	...	...	...	...	7.8	...	3.7	...	8.5	8.0	5.8	...
Manizales	...	...	...	...	14.7	...	9.6	...	15.8	10.2	14.7	...
Pasto	...	...	...	...	10.5	...	10.4	...	8.6	9.9	10.7	...
Rates of underemployment	14.0	14.8	12.5	...	16.5	...	15.4	...	...	...	...	...
Rates of participation	36.4	37.3	39.2	40.3	40.5	41.2	39.6	39.7	39.0	38.6	39.2	38.5
Bogotá	36.6	38.2	39.0	41.0	41.5	42.9	39.5	40.0	38.4	38.5	39.2	39.1
Barranquilla	32.4	34.6	33.0	34.2	33.7	34.8	33.3	35.1	36.0	35.2	37.8	36.4
Medellín	36.5	38.5	39.9	41.3	40.7	40.2	41.8	42.3	40.5	40.3	38.6	37.2
Cali	38.2	37.5	41.5	42.2	43.7	43.2	42.9	38.9 ^a	40.6	39.2	41.8	40.0
Bucaramanga	...	...	...	...	37.9	...	36.8	...	40.8	39.7	38.5	...
Manizales	...	...	...	...	36.9	...	38.2	...	36.7	34.6	33.9	...
Pasto	...	...	...	...	36.4	...	37.5	...	39.0	39.0	39.3	...

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE).

^a Preliminary figures.

marked expansion in the construction sector for the second consecutive year and by the increase which was probably recorded in the public administration staff, a more important factor was the drop in the rates of participation. As may be seen from table 8, these fell markedly in Bogotá, Cali and Medellín (the same three cities where the drop in unemployment was concentrated), whereas the rate of participation rose in Barranquilla, the only one of the main urban centres where the rate of unemployment rose. Consequently, rather than reflecting a substantial increase in employment, which, as already noted, would seem surprising in view of the general loss of dynamism of the economy, the decline in the rate of unemployment was apparently due to the fact that quite a few of the persons in the labour force withdrew from it and stopped seeking work actively.

3. The external sector

(a) External trade

(i) *Exports.* The year 1981 marked the end of the long and sustained expansion of exports of goods registered in the preceding decade, thanks to which their value more than quintupled, rising from a little over US\$ 790 million in 1970 to nearly US\$ 4.1 billion in 1980. In 1981, in contrast, the value of external sales of merchandise declined by close to 24% because of a decrease of slightly more than 10% in their unit value and a contraction of nearly 15% in their volume (see table 9).

Contrary to what had happened the preceding year, the main cause of the decline in volume was the drop in physical sales of coffee, which barely exceeded 9 million bags after having remained at over 11.1 million bags in both 1979 and 1980. At the same time, the average price of the coffee exported, which had already fallen slightly in 1980, suffered another—and this time substantial—drop of 34 US cents in 1981, averaging US\$ 1.45 a pound (see table 10).

The decline in the international price of coffee reflected essentially the surplus supply which existed in 1981 on the world coffee market, and this in turn was due basically to the increases in production stimulated by the very buoyant international prices during the period 1976-1979. Because of this situation, and in view of the persistent decline in prices, it was necessary during the 1980-1981 coffee year to change the level of the global quotas four times. As a result, Colombia's quota was reduced to 8.3 million bags—over 14% lower than the quota established initially.⁷ Thus, the surplus supply of coffee at the world level not only adversely affected Colombia's terms of trade but also, because of the quota reduction, affected the volume of Colombian coffee exports. Because of these simultaneous drops in price and volume, the value of coffee exports suffered a dramatic drop of over 41% and totalled somewhat less than US\$ 1.4 billion in 1981—the lowest figure recorded since 1977.⁸

The decline in the value of coffee exports was also accompanied by a very slow growth of the volume of the other external sales, which increased by somewhat less than 2%: a rate not only much lower than that achieved in 1980, but also lower than those recorded in any of the ten preceding years except 1975.

The main cause of the near-stagnation of non-coffee exports was the considerable decrease in external sales of manufactures, whose value fell by 21% after having more than doubled over the two preceding years (see table 11).

This radical turnaround in the evolution of industrial exports reflected the stagnation of sales of clothing and, above all, the sharp decline in exports of leather goods (-40%), cotton yarns (-47%) and, especially, sugar. Exports of this latter commodity, which had totally disappeared in 1977 but expanded with extraordinary intensity in the following three years to become the second most important export in 1980, fell by 57% in 1981 as a consequence of a drop of slightly more than 5% in the volume of sugar produced and of the slump in the international

Table 9
COLOMBIA: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
Growth rates							
Exports of goods							
Value	14.8	30.7	21.0	18.2	9.4	16.7	-23.6
Volume	27.5	-15.2	-27.6	40.0	21.9	1.5	-14.7
Unit value	-9.9	54.0	67.1	-15.6	-10.3	15.0	-10.4
Imports of goods							
Value	-5.7	16.9	18.9	29.6	16.9	47.5	8.3
Volume	-11.6	12.0	12.4	15.3	5.9	34.4	2.0
Unit value	6.6	4.4	5.8	12.3	10.3	9.8	6.2
Terms of trade (goods)	-15.6	47.5	57.9	-14.6	-18.7	4.9	-15.6
Indexes (1970 = 100)							
Terms of trade in goods, FOB/CIF	81.5	120.2	189.8	143.0	116.2	122.0	102.9
Purchasing power of exports of goods	129.9	160.6	182.4	193.9	192.5	202.2	144.6
Purchasing power of exports of goods and services	128.6	158.2	182.4	190.6	198.3	200.3	153.2

Source: ECLA, on the basis of official data.

^aPreliminary figures.

⁷In addition to its exports to the member countries of the International Coffee Agreement, Colombia exported slightly more than 700 000 bags of coffee to non-member countries.

⁸As a consequence of the increase in the physical sales of coffee and, above all, of the rise in its international price, the value of coffee exports rose from an average of nearly US\$ 535 million in the period 1970-1975 to close to US\$ 1 790 million in the period 1975-1980.

Table 10

**COLOMBIA: EVOLUTION OF COFFEE PRICES AND
THE RETENCION QUOTA**

Averages	Prices			Percentages	
	External ^{a,b}	Minimum refund ^c	Domestic ^d	Retention quota ^e	Ad valorem tax
Annual					
1976	157.7	307.6	7 000	80	18.0
1977	240.2	313.8	7 300	80	17.0
1978	185.2	259.0	7 300	80	16.0
1979	183.4	251.0	8 300	58	16.0
1980	179.0	182.0	9 200	15	15.8
1981	145.3	187.7	9 453	22	12.7
Quarterly					
I	...	182.0	9 200	15	13.0
II	136.6	185.4	9 200	20	13.0
III	146.5	186.6	9 287	22	12.7
IV	153.0	196.8	10 124	30	12.0

Source: ECLA, on the basis of data supplied by the Banco de la República.

^aCorrespond to the New York exchange quotation for MAMS coffee (Manizales, Armenia, Medellín and Sevilla).

^bUS cents per pound.

^cDollars per 70-kg bag of unroasted coffee.

^dPesos per 125-kg load of parchment coffee.

^ePer 70-kg bag exported.

price.⁹ On the other hand, during 1981 the marked and persistent rise in exports of corrugated cardboard boxes continued, exports of cotton fabrics recovered, and, as a consequence of the increase in purchases by Mexico and Venezuela, the value of cement exports rose by 28%.

In contrast with the negative evolution of exports of manufactures, the value of external sales of agricultural commodities other than coffee rose by 20%, coming close to US\$ 500 million. A particularly sharp increase was shown by exports of beef, whose value rose by 82%, thereby doubling that recorded only two years earlier. As in past years, Venezuela remained the main market for this commodity, accounting for 68% of the sales.

In spite of the outbreak of sigatoka disease which affected extensive areas of plantations, during 1981 banana exports continued to expand for the ninth consecutive year. Their value rose by 25%, thanks in particular to a 17% rise in their average price, so that they brought in a total of US\$ 136 million (three times the total recorded only five years previously), and became the most important export item after coffee.

On the other hand, as a consequence of problems related to plant diseases, markets and profitability, there was a significant slackening in 1981 in the growth rate of sales of flowers, whose value rose by less than 8% after having increased more than fivefold between 1975 and 1980. Something similar happened with cotton exports, which, after the notable recovery they registered in 1980, rose by only 7% in 1981 (see table 11).

In 1981 the export trade continued to be supported by technical and credit assistance provided by the Export Promotion Fund (PROEXPO). To support the financing of working capital in pre-shipment activities, PROEXPO granted loans totalling 40.5 billion pesos. This was 31% higher than the amount granted in 1980, and represented a slight increase in real terms. Of this total, 14.4 billion pesos was earmarked for the primary sector, representing an increase of 79% over the

⁹After rising in 1981 to an average of 28.7 US cents per pound (the highest price since 1974), this fell in 1981 to 16.9 US cents.

preceding year, while 24 billion pesos went to the manufacturing sector, where the branches of activity which benefited most were food production, the textile industry, ready-made clothing and the manufacture of chemicals. In addition PROEXPO granted loans equivalent to nearly 1 930 million pesos to finance the enlargement of the production capacity of industries exporting tourist goods and services. This, however, was only 10% more than the loans granted in 1980 and therefore represented a decrease of nearly 15% in real terms. Moreover, PROEXPO came to the aid of the textile manufacturers in order to help them to finance the purchase of the cotton harvest so that they would have sufficient stocks for export production, granting them loans totalling close to 1.8 billion pesos. The fund also expanded its post-shipment loans in 1981, granting a total of 940 million pesos in national currency and 2 870 million pesos in foreign currency for this purpose. With a similar aim of facilitating external sales, PROEXPO increased export credit insurance by 65%. Finally, it supported the export sector by granting loans to carry out feasibility studies of exportable production and foreign markets and to provide staff training services and technical assistance in design and packaging.

During 1981 the authorities also sought to stimulate exports by modifying the system of tax credit certificates (CAT) through increases in the percentage applicable to exports of textiles, ready-

Table 11
COLOMBIA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Ajusted total ^b	2 942	3 362	3 810	2 857			14.4	13.3	-25.0
Ajusted total, excluding coffee	930	1 337	1 436	1 464			13.7	7.4	1.9
Agricultural ^c	2 363	2 359	2 782	1 884	77.7	62.7	1.4	17.7	-32.3
Coffee	2 012	2 025	2 374	1 393	61.1	46.4	0.6	17.2	-41.3
Beef	49	31	33	60	2.0	2.0	-36.7	6.4	81.8
Live cattle	15	6	1	...	3.4	-	-60.0	-80.6	...
Frozen shrimps	13	19	17	16	1.0	0.5	46.1	-10.6	-5.9
Tobacco	27	25	25	21	1.6	0.7	-7.4	-	-16.0
Flowers	53	79	102	110	0.3	3.7	49.1	27.8	7.8
Beans	6	6	4	7	...	0.2	-	-36.7	75.0
Uncarded cotton	73	52	102	109	4.9	3.6	-29.8	94.2	6.9
Bananas	75	84	109	136	3.4	4.5	12.0	28.5	24.8
Milled rice	3	32	15	32	...	1.1	-	-53.2	113.3
Industrial ^c	230	346	476	377	6.8	12.6	50.4	37.6	-20.8
Raw sugar	21	47	175	75	2.9	2.5	123.8	272.3	-57.1
Cement (Portland and clinker)	38	58	53	68	0.4	2.3	52.6	-8.6	28.3
Cotton yarn	29	36	38	20	0.9	0.7	24.1	5.5	-47.4
Corrugated cardboard boxes	26	31	40	49	0.8	1.6	19.2	29.0	22.5
Cotton textiles	28	36	34	38	1.5	1.3	28.6	-5.6	11.8
Clothing	49	91	86	86	...	2.8	85.7	-5.5	-
Leather goods	20	20	15	9	...	0.3	-	-25.0	-40.0
Medicaments	6	7	7	7	0.3	0.2	16.7	-	-
Books	13	20	28	25	...	0.8	51.8	4.0	-10.7
Other ^c	533	827	733	742	15.0	24.7	58.9	-11.3	1.2
Adjustments ^d	-147	-170	-177	-146					

Source: ECLA, on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

^aPreliminary figures.

^bThe data refer to export permits, so that the totals differ from the balance-of-payments figures.

^cUndjusted permits.

^dPermits issued but not taken up by exporters.

Table 12

**COLOMBIA: EVOLUTION OF THE INDEXES OF THE EFFECTIVE
REAL EXCHANGE RATES FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual and quarterly averages	Exports	Imports
1970	115.3	121.0
1971	117.6	122.4
1972	118.8	122.9
1973	118.9	120.8
1974	112.3	115.1
1975	118.2	119.5
1976	112.0	113.1
1977	102.0	102.0
1978	103.1	103.4
1979	99.3	98.6
1980	100.0	100.0
I	101.3	99.9
II	99.5	99.1
III	101.7	101.6
IV	98.4	100.5
1981	92.9	95.7
I	96.4	99.4
II	92.5	95.6
III	90.5	93.6
IV	92.0	94.6

Source: Statistical Appendix.

^aThese indexes are obtained by multiplying the weightings of exports or imports (table 2) by indexes of the real exchange rate (table 1). The results are then added together to obtain the indexes of the effective real exchange rate. For more details, see the introduction to the Statistical Appendix.

made garments and some mineral products from 9% to 12% and increases from 4% to 9% in the percentage applicable to external sales of flowers, some vegetables, leather and cocoa. For the same purpose, the period of maturity of CAT certificates for use to pay taxes was reduced.

These incentives were not, however, in general sufficient to compensate for the adverse effect on the competitiveness of exports caused by the drop in the effective real rate of exchange; this rate went down by 7%, in spite of the fact that in 1981 the monetary authorities accelerated the rate of the gradual devaluation of the peso against the dollar,¹⁰ so that the real rate of exchange with respect to the United States currency rose slightly. Because, however, of the marked revaluation of the dollar against the European currencies in 1981, the rate of exchange between the Colombian peso and these currencies declined markedly¹¹ in real terms, so that in 1981 the virtually systematic decline registered in the effective real rate of exchange since 1975 continued (see table 12 and figure 2).

(ii) *Imports.* In 1981 the value of imports of goods totalled nearly US\$ 4.8 billion, —8% higher than in 1980. This increase was much less than those noted in each of the five preceding years, during which merchandise imports trebled, rising from US\$ 1 425 million in 1975 to US\$ 4 420 million in 1980. The reduction in the growth rate of the value of imports was basically

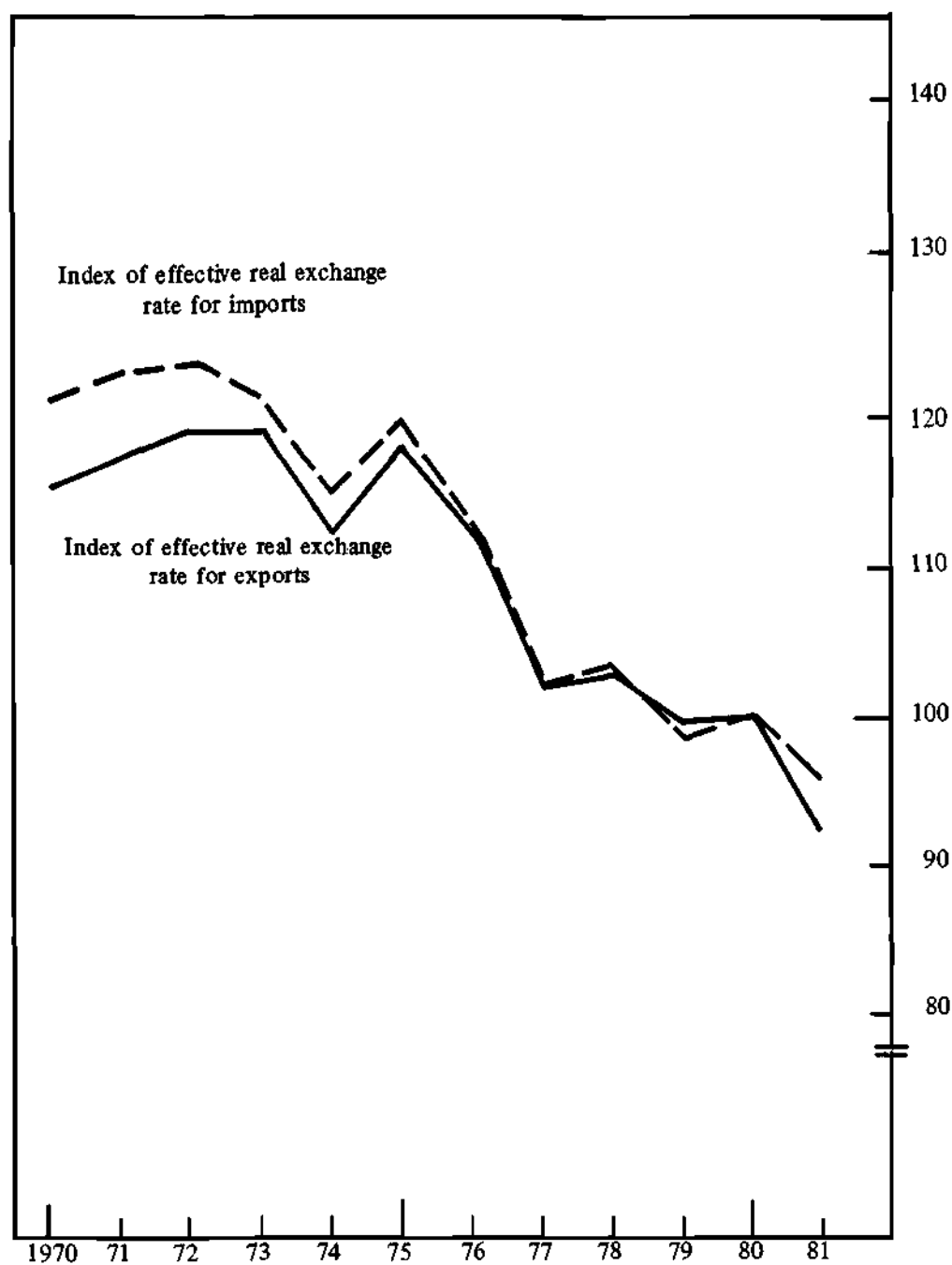
¹⁰The average rise in the rate of exchange against the dollar rose from 11% in 1980 to 15.3% in 1981.

¹¹In this respect, see the tables for Colombia in the technical appendix at the end of Part Two of the Survey.

Figure 2

**COLOMBIA: EVOLUTION OF THE INDEXES OF THE EFFECTIVE REAL
EXCHANGE RATES FOR EXPORTS AND IMPORTS**

(1980 = 100)



Source: Statistical Appendix.

due to the much more moderate expansion of their volume, which, after rising at the exceptional rate of over 34% during the preceding year, increased by only 2% in 1981. At the same time, the rise in the unit value of imports fell from nearly 10% to slightly over 6%.

Seen from another angle, the reduction in the growth rate of imports was a reflection both of the effects of the slower expansion of domestic economic activity and of the changes in economic policy. In previous years, as a result of the coffee boom and of considerations regarding the need to enlarge production capacity and promote the efficiency of domestic production, greater external openness of the economy was favoured. With regard to imports, this policy was reflected in the transfer of many categories from the system of prior import licences to a free import régime, and in an appreciable reduction in tariffs, which dropped to very low levels in some cases such as imports of machinery and equipment and vehicles for public passenger transport and cargo. All these measures had their fullest impact in 1979 and 1980 when, as already noted, imports grew with remarkable rapidity. During 1981, in contrast, the import liberalization process was halted, the reduction of tariffs was slowed down, and some of the special measures for encouraging some imports were eliminated, although those aimed at promoting external purchases of capital goods for industry, energy and mining were retained.

Partly as a result of these changes in trade policy and, more fundamentally, because of the scant increase in private consumption, imports of consumer goods, which had recorded extraordinary increases in the two preceding years, virtually stagnated in 1981. Thus, after rising by 80% in 1979 and by 42% in 1980, they increased by only a little over 1% in 1981 because of the marked slackening in the growth rate of purchases of non-durable goods and, above all, the decline in the absolute value of imports of durable consumer goods¹² (see table 13).

Table 13

COLOMBIA: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total ^b	3 413	4 630	5 412	6 094	100.0	100.0	35.7	16.9	12.6
Consumer goods	298	536	760	770	11.0	12.6	80.0	41.7	1.4
Non-durable	198	251	296	325	6.1	5.3	26.8	17.9	9.8
Durable	99	284	464	445	4.9	7.3	186.9	63.4	-4.1
Intermediate goods	1 640	2 384	2 653	3 112	44.7	51.1	45.4	11.2	17.3
Petroleum and fuels	383	665	810	902	0.9	14.8	73.6	21.8	11.4
For agriculture	89	110	164	188	1.1	3.1	23.6	49.1	14.6
For industry	1 168	1 609	1 679	2 022	42.7	33.2	37.6	4.3	20.4
Capital goods	1 457	1 669	1 964	2 172	43.3	35.6	14.6	17.7	10.6
Building materials	35	104	67	126	1.7	2.1	197.4	-35.6	88.0
For agriculture	107	62	69	82	0.9	1.3	-42.1	11.3	18.8
For industry	704	958	1 129	1 350	26.8	22.1	36.1	17.8	19.6
Transport equipment	611	545	699	614	13.9	10.1	-10.8	28.3	-12.1

Source: ECLA, on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

^a Preliminary figures.

^b Includes small items of non-classified imports.

¹²The decrease of over US\$ 60 million registered in automobile purchases was a significant factor in this decline in the absolute value.

On the other hand, imports of intermediate goods rose by 17% —faster than in 1980. This acceleration was exclusively due, however, to the sharp increase shown by purchases of intermediate goods for industry, which rose by 20% after having increased by only 4% in 1980, while the growth rate of imports of petroleum and fuels, which had more than doubled between 1978 and 1980, continued to decline markedly and amounted to only 11% in 1981.

There was also a reduction in the growth rate of purchases of capital goods in 1981, in spite of the fact that purchases of building materials increased by 88% after having declined by 36% during the preceding year. This substantial expansion was due to the purchase of machinery and equipment for works which are being carried out as part of the big hydroelectric projects under way, and for mineral and petroleum prospection and operations. The decrease in imports of transport equipment, in contrast, was due to the fact that in 1981, as already noted, some special measures adopted in 1980 regarding the purchase of transport equipment for public service and freight ceased to be operative, while the minimum price allowed for the purchase of private automobiles was raised.

(iii) *The terms of trade and the purchasing power of exports.* As a result of the sharp decline in the unit value of exports of goods and a further (although moderate) increase in that of imports, the terms of trade fell by close to 16%. This represented a continuation of the downward trend in the terms of trade which began in 1978, following the notable improvement they showed in the two preceding years because of the dramatic rise in the international price of coffee caused by the Brazilian frosts in 1975. In fact, the 1981 drop caused the terms of trade index to sink to a level only slightly higher than the one recorded at the beginning of the previous decade (see table 9).

Since, in addition to the decline in the price of exports, their volume also contracted markedly, the drop in the purchasing power of exports of goods (-28.5%) was considerably larger than the decline in the terms of trade. It brought the purchasing power of exports to its lowest level in the past six years, only 11% higher than that at which it stood before the beginning of the coffee boom.

(b) *The balance of payments*

As a consequence of the reduction of slightly more than 18% in the value of exports of goods and services (which thus totalled US\$ 4.2 billion) and a 7.5% increase in imports of goods and services (whose value in absolute terms rose to US\$ 5 930 million) the 1981 trade deficit amounted to nearly US\$ 1 725 million —4.6 times that recorded the previous year.

Because of this, and of an increase of 28% in net remittances of profits and interests, the deficit on current account came to US\$ 1 970 million: nearly four times as high as the negative balance for 1980 and US\$ 550 million more than the surpluses accumulated during the 1976-1979 coffee boom.

The flow of long-term capital and non-compensatory official transfer payments totalled close to US\$ 1.3 billion in 1981. As in the preceding year, direct investments (aimed primarily at the financing of some mineral projects and of petroleum exploration and exploitation activities) reached a high level, exceeding US\$ 200 million. Net long-term loans to the public sector, although lower than those disbursed in 1980, also remained at a much higher level than in past years. They were used to finance the big projects for enlarging the electric power generation capacity and other projects in the fields of mining and public works. The private sector, for its part, disbursed long-term loans totalling somewhat more than US\$ 400 million, i.e., considerably more than the US\$ 180 million received in 1980.

As a consequence of the expansion in the net inflow of long-term capital and the increase in short-term credits, the surplus on the capital account was very similar to the deficit on current account. For this reason, the increase in international reserves (about US\$ 200 million) was much lower in 1981 than in the five preceding years, when the reserves rose by more than US\$ 4.8 billion (see table 14). Thus, at the end of 1981 the country continued to hold a solid reserve position, since its accumulated reserves totalled US\$ 5.6 billion, which was nearly equal to the total imports of goods and services effected during that year.

Table 14

COLOMBIA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	2 804	3 443	3 999	4 585	5 144	4 205
Goods FOB	2 243	2 713	3 206	3 506	4 092	3 127
Services ^b	561	730	793	1 079	1 052	1 078
Transport and insurance	261	291	305	335	353	393
Travel	188	245	283	358	357	385
Imports of goods and services	2 345	2 788	3 448	3 939	5 517	5 929
Goods FOB	1 665	1 979	2 564	2 996	4 420	4 788
Services ^b	680	809	884	943	1 097	1 141
Transport and insurance	329	383	421	432	547	568
Travel	174	200	229	236	250	270
Merchandise balance	578	734	642	510	-328	-1 661
Trade balance	459	655	551	646	-373	-1 724
Profits and interest	-313	-273	-302	-256	-260	-334
Profits	-109	-86	-121	-49	-61	-37
Interest received	65	65	124	249	470	660
Interest paid	-269	-252	-304	-456	-669	-957
Unrequited private transfer payments	46	54	45	99	98	89
Balance on current account	193	435	294	490	-536	-1 969
Unrequited official transfer payments	14	5	28	1	26	26
Long-term capital	104	230	95	739	1 067	1 256
Direct investment	14	43	68	105	233	209
Portfolio investment	-1	-2	-3	-12	-4	0
Other long-term capital	91	189	30	646	838	1 047
Official sector ^c	7	12	30	411	661	644
Loans received	69	88	155	601	843	901
Amortization payments	-58	-75	-103	-189	-167	-257
Commercial banks ^c	0	0	0	0	0	0
Loans received	0	0	0	0	0	0
Amortization payments	0	0	0	0	0	0
Other sectors ^c	84	177	0	235	177	403
Loans received	239	333	208	512	242	...
Amortization payments	-155	-155	-208	-276	-65	...
Basic balance	311	670	417	1 230	557	-687
Short-term capital	99	-257	14	176	405	614
Official sector	28	-4	15	-22	-51	
Commercial banks	60	-203	14	376	203	
Other sectors	12	-50	-15	-178	252	
Errors and omissions (net)	211	159	19	54	96	
Balance on capital account	428	137	155	970	1 594	1 896
Global balance ^d	621	572	449	1 460	1 058	-73
Total variation in reserves ^d (minus sign indicates an increase)	-639	-661	-676	-1 552	-1 311	-190
Monetary gold	-13	-13	-56	-75	-324	-239
Special Drawing Rights	-4	-4	-18	-45	-14	-31
IMF reserve position	-7	-41	2	-6	-49	-30
Foreign exchange assets	-615	-603	-604	-1 425	-925	110

Source: 1976-1980: International Monetary Fund, *Balance of Payments Yearbook*; (magnetic tape, March 1982); 1981: ECLA, on the basis of official data.

^aPreliminary figures.

^bServices also include other official and private transactions, but not profits and interest.

^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

(c) *The external debt*

At the end of September 1981, the total public and State-guaranteed private external debt came to US\$ 4.9 billion, 15% higher than the amount recorded at the end of 1980. During those first nine months of 1981, a total of 885 million pesos was received as new loans. Projected for the whole year, this would be more or less equivalent to the amount disbursed in 1980 (see table 15).

Thus, the upward trend in the external indebtedness begun in 1979 continued in 1981. While during the period 1975-1978 total disbursements came to US\$ 1 444 million, in the following 33 months the loans disbursed came to more than double that figure, slightly exceeding US\$ 2.9 billion. This growth in external indebtedness was due in essence to the Government's desire to finance part of the large investments envisaged in the National Integration Plan out of external resources, taking advantage of the country's good international credit position for that purpose. Even so, Colombia's share of external indebtedness and the burden of this debt remained lower than in the majority of Latin American countries of similar size. Thus, during the first nine months of the year, debt servicing amounted to only about 14% of exports of goods and services.

4. Prices and wages

(a) *Prices*

During 1981 inflation remained at the high level recorded during the preceding year, since the December-December variation in the consumer price index for manual workers came to 26.7%: almost identical to the figure for the preceding year. The increase in the consumer price index for non-manual workers, which stood at a slightly higher level than in 1980, and the variation of wholesale prices, which, in contrast, was slightly less in 1981 than during the preceding year constitute further evidence of the stability of the rate of inflation (see table 16). As regards its intensity, this can be gauged from the fact that the increases in consumer prices were higher in 1981 than in any of the 20 preceding years except 1963, 1977 and 1979.

As usual, the food component of the consumer price index rose much more markedly than the total index.¹³ On the other hand, the prices of clothing rose once again at a considerably lower rate than prices in general.

Table 15
COLOMBIA: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of dollars)

	1976	1977	1978	1979	1980	1981 ^a
Public and state-guaranteed private debt						
Disbursed debt ^b	2 636	2 843	2 962	3 524	4 243	4 896
Balance not yet taken up	964	1 102	1 550	1 909	2 492	2 690
Disbursements ^c	284	405	321	985	1 083	885
Servicing of debt	280	326	397	655	618	434
Payments of interest and commission	131	141	165	233	280	259
Amortization payments	149	185	232	422	338	175
Servicing of debt as a percentage of exports of goods and services ^d	10.0	9.5	9.9	14.3	12.0	13.8

Source: ECLA, on the basis of data supplied by the Banco de la República.

^aPreliminary figures up to the end of September.

^bOutstanding debt balance payable at year-end.

^cUndisbursed balance of contracted debts.

^dPercentages.

¹³The only exceptions to this pattern in recent years occurred in 1978, when agricultural production increased dramatically, and in 1980, when large amounts of foodstuffs were imported.

Among the components of the wholesale price index, the price of imports increased less than that of goods of domestic origin, thus repeating the pattern which prevailed during the preceding six years and was only broken in 1978.

Among goods of domestic origin, the prices of agricultural commodities increased by more than 29%, which is the highest figure recorded in the past six years, except for 1976, when the prices of agricultural commodities rose by nearly 38% as a result of the great 1975 drought.

The increase in agricultural prices also surpassed that of manufactures by a considerable margin, thereby resuming the trend which began in 1974 and was broken only in the 1979-1980 period. Between 1980 and 1981, in fact, the variations in agricultural and industrial prices were almost exactly reversed, as the former rose during those years from 21% to 29%, while the latter fell from 30% to 21% (see table 16).

If, instead of considering the origin of the commodities included in the wholesale price index, their use or destination is taken into account, their evolution in 1981 was markedly asymmetrical: while the prices of consumer goods increased by 31% in 1981 (practically equalling the 30% rise recorded in 1980) and the prices of capital goods followed a similar pattern (rising from 23.6% in 1980 to 24.1% in 1981), the prices of raw materials slackened notably for the second year running, since after increasing by 25.6% in 1979 and 21.4% in 1980, they rose by only 15.3% in 1981. This marked decline in the rate of increase of raw materials prices was partly a result of the slower overall economic activity and partly due to the rise in interest rates: both factors which led producers to reduce their inventories, with a consequent depressive effect on the demand for raw materials and intermediate goods.

Table 16
COLOMBIA: EVOLUTION OF DOMESTIC PRICES

	1975	1976	1977	1978	1979	1980	1981
Variation December - December							
Consumer price index ^a							
Total, manual workers	17.9	25.9	29.3	17.8	29.8	26.5	26.7
Food	19.7	27.8	35.0	11.9	32.1	25.4	28.2
Housing	15.2	22.6	18.9	26.8	27.5	31.8	25.5
Clothing	12.9	22.5	22.8	26.8	25.5	18.7	21.4
Miscellaneous	16.8	25.1	22.5	27.5	26.9	22.8	24.8
Total, non-manual workers	17.5	25.4	27.5	19.7	26.5	24.5	25.6
Food	19.3	28.0	34.4	14.1	32.1	26.7	28.8
Housing	16.1	22.3	18.5	23.4	20.8	23.0	22.6
Clothing	13.3	22.6	23.7	27.4	25.1	19.3	19.0
Miscellaneous	16.5	27.3	19.7	21.6	27.4	25.4	23.5
Wholesale price index	19.6	27.3	19.7	21.6	27.4	25.4	23.5
Imported products	20.2	14.2	11.7	21.2	20.6	23.6	22.4
Domestic products	21.1	35.6	21.8	20.7	28.7	26.5	25.3
Agricultural products	25.5	37.8	26.4	21.7	28.3	21.3	29.3
Manufactures	17.0	24.0	18.2	19.7	33.3	30.0	20.9
Residential building cost index							
Whole country	13.8	18.9	22.3	32.7	30.0	26.9	22.0
Bogotá	15.7	18.9	18.6	36.4	29.7	27.4	20.2
Variation between annual averages							
Consumer price index ^a							
Total, manual workers	23.8	19.9	34.8	17.1	24.7	27.2	28.1
Food, manual workers	27.2	20.2	43.2	12.6	22.7	28.7	28.5
Total, non-manual workers	22.3	20.4	31.3	18.9	23.8	24.9	26.0

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE) and the Banco de la República.

^aNational average.

(b) *Wages and salaries*

In January 1981 the minimum legal wages were readjusted by 26.4% in both rural areas and urban centres, except for the capitals of departments, where they were raised by a slightly higher percentage. This increase was somewhat lower than the variation between the annual averages of the consumer price index for manual workers, and consequently the purchasing power of the minimum wages fell by slightly more than 1% in 1981. This decline was the first one recorded after four years during which minimum wages experienced continuous real increases, thanks to which the purchasing power of the minimum rural wage was 43% higher in 1980 than in 1976, while over the same period the minimum urban wage paid in the capitals of departments experienced a real increase of 31% (see table 17).

During 1981 there was also a generalized decrease in the average real daily wages paid in the agricultural sector. Daily wages for manpower hired without meals on the farms of the hot-climate regions experienced the biggest deterioration (-3.7%), while daily wages, including meals, paid on the cattle ranches of the cool-climate regions registered the smallest decrease (-0.3%) (see table 18).

In the manufacturing sector, however, despite the decline in production and employment, the wages paid to employees increased by 2.4% in real terms—a bigger increase than those recorded in the previous two years—, while the real daily wages paid to industrial workers rose slightly for the second year running, after having risen by close to 19% between 1977 and 1979 (see table 19).

5. Monetary and fiscal policy

(a) *Monetary policy*

In 1981 the monetary authorities managed to reduce the growth rate of the means of payment, thus achieving one of the goals which they had set themselves in their efforts to bring about a gradual moderation of the inflationary process. Thus, the money supply increased by 21% in 1981, much lower rate than that recorded not only in 1980, but also in any year in the previous decade except 1971 and 1974 (see table 20). This rate of increase of the means of payment also meant that in 1981 the real supply of money decreased, and that the ratio between this variable and the gross domestic product fell.

The basic cause of the slackening in the growth of the money supply was the further marked drop registered by the rate of expansion of the monetary base, which after rising at an average rate of over 35% in 1977 and 1978 and expanding by an average of close to 30% in the following two

Table 17

COLOMBIA: MINIMUM DAILY LEGAL WAGES

(Averages)

	Pesos					Growth rate of real wages ^a				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Rural wages ^b	53.6	71.3	105	140	177	1.9	13.6	18.0	4.8	-1.3
Urban wages ^c										
High ^d	62.9	83.3	115	150	190	1.4	13.1	10.7	2.5	-1.2
Low ^e	58.8	78.0	105	140	177	2.7	13.1	8.0	4.8	-1.3

Source: ECLA, on the basis of data supplied by the Banco de la República and the National Bureau of Statistics (DANE).

^aDeflated by the consumer price index for manual workers.

^bCrop farming, stock-raising, forestry, hunting and fishing.

^cRemaining economic activities.

^dIn the capital cities of departments and adjacent municipios.

^eIn the remaining municipios.

Table 18

**COLOMBIA: AVERAGE DAILY WAGES IN AGRICULTURE
AND STOCK-RAISING**

	Pesos					Growth rates of real wages ^a				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Crop farming										
Cold (upland) areas										
With food	57.0	75.8	97.3	125.3	158.0	20.1	13.6	2.9	1.3	-1.6
Without food	87.5	113.5	144.3	182.3	227.0	12.5	10.8	1.9	-0.6	-2.9
Hot (lowland) areas										
With food	66.5	85.5	105.8	137.5	171.8	18.3	9.8	-0.7	2.2	-2.5
Without food	99.3	124.8	151.0	195.0	240.7	12.1	7.3	-2.9	1.5	-3.7
Stock-raising										
Cold (upland) areas										
With food	56.5	76.5	98.3	125.8	160.8	16.3	15.6	3.1	0.6	-0.3
Without food	86.5	113.0	143.8	182.0	229.5	9.7	11.5	2.1	-0.4	-1.6
Hot (lowland) areas										
With food	69.3	91.3	111.3	147.0	184.3	16.6	12.5	-2.2	3.8	-2.1
Without food	102.8	129.8	159.0	206.8	256.0	11.3	7.9	-1.8	2.2	-3.3

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE).

^aDeflated by the consumer price index for manual workers.

Table 19

**COLOMBIA: MONTHLY WAGES AND SALARIES IN
MANUFACTURING AND COMMERCE**

	Pesos					Growth rates of real wages				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Industry										
Non-manual workers ^a	9 174	11 458	14 358	18 190	23 460	-6.3	5.0	1.2	1.4	2.4
Manual workers ^b	4 169	5 440	7 224	9 265	11 975	-5.8	11.4	6.5	0.9	0.9
Commerce ^b	5 448	6 892	8 843	11 594	...	-1.7	7.9	2.9	3.0	...

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE).

^aTo calculate the real wages, the consumer price index for non-manual workers was used.

^bTo calculate the real wages, the consumer price index for manual workers was used.

years, rose by a little under 22% in 1981. The primary factor in the more moderate expansion of the monetary base was the much slower growth of the international reserves of the Banco de la República, which increased by not much more than US\$ 210 million in 1981, after having expanded at an average rate of US\$ 640 million annually during the three-year period 1976-1978 and at an average rate of US\$ 1 460 million in the following two years, primarily as a result of the tremendous increase in the foreign exchange earnings caused by the boom in world coffee prices.

Even though their expansion was much slower, however, the increase in the international reserves remained the major factor in the growth of the monetary base. Indeed, in absolute terms their increase was actually greater than that of the latter. Nevertheless, the ratio between the increase in reserves and the growth of monetary emission was much smaller in 1981 than in previous years;¹⁴ this made the task of the monetary authorities in counteracting the expansive

¹⁴In 1981 this coefficient came to 1.34, while in 1980 it stood at 2.19 and in 1979, at 2.52.

effects of the accumulation of reserves much easier, since they did not have to resort to open market transactions to the enormous extent which had been necessary during the two preceding years, when they absorbed means of payments in the amount of 9.4 and 18.5 billion pesos, respectively. In 1981, in contrast, the Banco de la República withdrew somewhat less than 1 billion pesos through its open market transactions (see table 21).

The control of the growth of the monetary base was also facilitated by the fact that in 1981 the development financing funds procured more resources from the public than they received from the Banco de la República, this resulting in a reduction in its net credit to them.

In 1981 there was also a drop in the net credit of the issuing institution to the Government, and this constituted another factor in reducing the growth rate of the monetary base. However, the Government overfinanced its deficit with external credit and the resources which entered the country for this purpose caused an increase in the international reserves, so that the drop in the net credit granted by the Banco de la República to the Government finally meant that the management of credit did not have a contractive effect on money issue.

Finally, another factor which helped to moderate the growth rate of the monetary base was the small amount of new credits granted by the issuing institute to the banks in 1981. These amounted to less than 2.8 billion pesos and therefore constituted only a small fraction of the fund used by the banking entities to expand their loans. The banks procured 28 billion pesos through the increase in current account deposits, while they received over 68 billion pesos through the expansion of time deposit certificates.

This latter increase meant that for the second year running time deposit certificates constituted the most dynamic monetary variable, since after registering an increase of 170% in 1980, they nearly doubled in 1981. Primarily because of this expansion, and to a lesser extent because deposits in housing corporations again increased, the growth rate of quasi-money was again very high and, as in 1980, amounted to more than twice the increase in the means of payment. Thus, whereas quasi-money in 1978 was equivalent to only 75% of the total means of payment, in 1981 it exceeded them by nearly 30%. For the same reason, and in spite of the marked slackening in the growth rate of money, the extended money supply grew at a very high rate (39%) which was higher than in any of the previous four years except in 1980 (see table 20).

(b) *Fiscal policy*

After continually amassing positive balances during the period 1976-1979, in 1981 the Government closed its accounts with a deficit for the second year running. However, this deficit

Table 20

COLOMBIA: EVOLUTION OF THE MAIN MONETARY AGGREGATES

	End-year balance (billions of pesos)				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Means of payment (M ₁)	134.9	167.6	214.3	259.7	30.3	24.2	27.9	21.2
Cash	53.4	66.9	83.3	100.6	31.9	23.2	24.5	20.8
Deposits on current account	81.5	100.7	131.0	159.1	29.3	23.6	30.1	21.5
Quasi-money (M ₂)	100.5	126.1	214.4	336.0	43.2	25.5	70.0	56.7
Deposits in housing corporations	35.0	53.2	83.2	122.2	43.2	52.2	56.5	46.8
Savings deposits	33.7	46.0	58.3	72.7	39.2	36.8	26.8	24.6
Term deposit certificates	31.9	26.9	72.8	141.1	47.6	-15.6	170.6	93.8
Extended money supply (M ₁ + M ₂)	235.4	293.7	248.7	595.7	35.5	24.8	46.0	39.0

Source: ECLA, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

Table 21

COLOMBIA: ORIGIN OF THE MONETARY BASE

	End-year balance (in billions of pesos)				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Monetary base	101.3	132.0	170.1	207.2	35.3	30.4	28.8	21.8
Assets of the Banco de la República	160.1	214.6	291.0	353.0	28.4	34.0	35.6	21.3
International reserves (net)	99.3	176.7	260.0	309.7	42.8	78.0	47.2	19.1
Domestic credit	63.1	45.0	41.7	63.3	11.3	-28.7	-7.3	51.6
Treasury	-0.3	-7.4	-15.4	-16.5				
Rest of the public sector	-0.7	-16.0	-18.2	-18.9				
Commercial banks	13.6	13.9	10.9	13.7	-2.2	1.9	-21.9	26.2
Financial funds	36.1	36.3	42.5	57.5	35.6	0.4	17.1	35.4
Other financial intermediaries	9.9	11.9	15.8	17.5	15.0	19.8	32.8	10.8
Private sector	4.5	6.3	6.2	10.0	22.3	40.1	-0.8	60.0
Exchange rate differences	-3.8	-8.1	-14.4	-19.0				
Other assets (net)	1.5	1.0	3.6	-1.0	3.0	-31.7	249.6	
Non-monetary liabilities of the Banco de la República	59.9	83.8	122.6	148.0	18.1	40.0	46.3	20.7
Commercial banks	0.5	0.7	0.8	0.7	14.6	33.9	16.0	-7.6
Financial funds	25.4	32.9	44.5	64.1	39.0	29.8	35.0	44.2
Other financial intermediaries	0.2	0.6	0.4	0.3	-27.4	138.5	-23.5	-20.0
Private sector	9.7	14.4	19.1	20.3	8.4	49.0	32.5	6.5
Transactions in the monetary market	16.3	25.8	44.3	45.2	0.2	57.9	71.8	2.0
Long-term transactions with the exterior	7.7	9.4	13.6	17.3	20.1	-22.0	44.0	27.4
Treasury money in circulations	1.0	1.2	1.8	2.1	26.1	21.4	45.6	21.6

Source: ECLA, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

was smaller than in 1980 (especially in real terms) and was accompanied by a considerable increase in fiscal savings. Moreover, for the first time in the past four years, the growth rate of current income exceeded that of total expenditure (see table 22).

The latter rose by close to 32%: a substantially lower rate than the one of 50% recorded in 1980 and also lower than those for the two preceding years. The more moderate expansion of total outflows derived from the lower growth rates shown in 1981 by both current expenditure and investment expenditure. In real terms, however, the evolution of these two components was different in that while current outflows increased at a slightly lower rate than that of inflation, investment expenditure expanded by over 45%, considerably surpassing the average increase in the level of prices.

In essence this difference reflected the stress laid by the Government on the maintenance and expansion of the basic social capital, as provided for in the National Integration Plan. Thus, of the total investment of 61 billion pesos made by the Government, 22 million pesos (49% more than in 1980) was used by the Ministry of Public Works and Transport in the renovation and expansion of the basic infrastructure of roads, bridges, ports, sewerage, aqueducts, etc. For its part, the Ministry of Mines and Energy invested 11 billion pesos (51% more than in the preceding year) in the substantial enlargement of the electric power generation capacity, the extension and modernization of energy transmission and distribution networks, and the implementation of the current rural electrification programmes. In addition, the Ministry of Mines and Energy earmarked some of its investments for search, prospecting and appraisal activities on new mineral deposits and for the development of large mineral exploitation projects. Finally, the investments made by the Ministry of Health totalled 5.8 billion pesos and those made by the Ministry of Education in school construction and the expansion of educational facilities totalled 3 billion pesos.

In 1981 the current income of the Government rose by 35%, i.e., slightly faster than during the previous year. Its increase of 5.5% in real terms, however, although somewhat higher than that recorded in 1980, was very much below those of over 13% and 9% achieved in 1978 and 1979, respectively.

Moreover, the evolution of fiscal income in 1981 was characterized by a much more heterogeneous behaviour on the part of its main components than in previous years. Thus, while revenue from income and complementary taxes rose by barely 12.5% and that derived from customs duties increased by 18.5%, that generated by the gasoline tax rose by 60%, and the yield from the special exchange account¹⁵ showed a very big expansion of close to 85% (see table 22).

These variations meant that both the yield from customs duties and, in particular, that from income tax fell considerably in real terms (-7.5% and -12%, respectively). In the case of income tax, the drop which occurred in 1981 came on top of the small real decreases in the previous two years and was essentially a consequence of the increasing degree of evasion of income tax, which is a revenue source of fundamental importance in the Colombian tax system.

On the other hand, the substantial rise in the earnings from the gasoline tax was mainly due to the increase in the price of fuels, while the even more vigorous expansion in the resources generated by the special exchange account was due to the considerable increase for the third year running in both the interest yielded by the international reserves and the profits made on the

Table 22

COLOMBIA: CENTRAL GOVERNMENT EFFECTIVE INCOME AND EXPENDITURE

	Billions of pesos				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Current income	84.1	114.6	151.8	204.9	32.6	36.3	32.5	35.0
Tax revenue	82.0	112.6	148.8	201.1	31.8	37.3	32.2	35.1
Income and comple- mentary taxes	30.4	37.3	47.1	53.0	27.0	22.6	26.4	12.5
Sales taxes	17.5	23.0	30.5	40.3	39.5	31.1	32.9	32.8
Customs duties and surcharges	13.4	16.6	24.8	29.4	42.0	24.3	49.2	18.5
Profits on exchange operations	10.9	23.8	30.1	55.5	23.9	118.3	26.4	84.4
Gasoline taxes	5.8	8.0	11.3	18.1	31.0	37.1	41.4	60.2
Others	4.0	4.3	4.9	4.8	31.0	8.2	15.7	-2.0
Non-tax revenue	2.1	2.0	3.0	3.8	68.7	-4.3	51.0	26.7
Current expenditure	57.1	82.6	121.3	153.8	38.3	44.7	46.7	26.8
Current savings	26.9	31.9	30.6	51.1	21.8	19.0	-4.3	67.0
Investment	21.0	26.0	42.0	61.1	29.3	23.7	61.6	45.5
Total expenditure	78.2	108.6	163.3	214.9	35.8	38.9	50.3	31.6
Fiscal deficit (or surplus)	5.9	6.0	-11.4	-10.0	0.8	2.1		-12.3
Financing of deficit								
External credit	-2.2	5.2	16.5	19.5				
Domestic credit	-3.7	-11.2	-5.9	-9.5				

Source: ECLA, on the basis of data supplied by the Banco de la República.

^aPreliminary figures.

¹⁵This account includes income from interest received in connexion with the management of the international reserves and that derived from the purchase and sale of foreign exchange.

purchase and sale of foreign exchange. Owing to its considerable increase in 1981 and to the likewise appreciable increases recorded in the two preceding years, the yield from the special exchange account, which in 1978 amounted to only one-third of the income tax revenue, exceeded the latter in 1981 and thus became the main source of fiscal resources.

As a result of the slightly higher growth of current income as compared with total expenditure, the Government's deficit fell from 11.4 to 10 billion pesos between 1980 and 1981. As in the previous year, this negative balance was financed in 1981 exclusively with external resources. These amounted, in fact, to nearly twice the total deficit, so that the Government was able to reduce its domestic indebtedness, as it had already done in the five preceding years (see table 21).

COSTA RICA

1. Recent economic trends: Introduction and summary

During the long period which began at the end of the Second World War and ended with the second petroleum crisis, the Costa Rican economy was one of the most dynamic and stable in Latin America. Up to the first petroleum crisis, this country in fact led the region in economic growth.¹ After that, it still occupied a privileged position until 1979, when a series of imbalances began to check the expansion of the product and threatened to set off a sharp inflationary process. The following year, the level of activity stagnated, and in 1981 the main macroeconomic variables deteriorated to such a point that the economy underwent its worse crisis in four or five decades. Thus, the gross domestic product declined for the first time in two decades and for only the third time since national accounts have been prepared for the country.² The drop of 3.6% in 1981 was well in excess of those recorded previously (in 1956 and 1961), and it would be necessary to go back to the beginning of the Second World War to encounter a greater decline. The 10.5% decrease in the gross national income and the 13% drop in domestic demand were by far the biggest slumps on record, while the reduction in consumption was unprecedented. The same might be said of the employment situation, since never had a rate of unemployment as high as the one recorded for 1981 been measured.

In spite of the pronounced drop in domestic demand, inflation reached a level of intensity unknown in the past, while the degree of deterioration of the country's external position was in certain respects reminiscent of the deterioration suffered during the Great Depression.³ Outstanding in this respect were the drop of no less than one-third in the import capacity and the declaration of a moratorium on external debt servicing. But the magnitude of the devaluation of the colón in 1981 not only far surpassed the exchange modifications which took place in the 1930s but was comparable to the total accumulated increases in the exchange rate from the time the country gained its political independence in 1825 up to the end of 1980.⁴

While it is true that this upheaval in the performance of the economy was to a considerable extent unleashed by the sharp worsening in the terms of trade, the denial to the country of access to the international financial markets and the marked rise in the real interest rates in those markets, the present crisis has been shaped primarily by factors of essentially domestic origin. The main factors in this connection seem to have been the persistent expansion of the deficit in the public finances and an excessive overvaluation of the colón. Important roles were also played, however, by structural factors such as the exhaustion of the agricultural frontier, the geographical shift of the population and exceedingly high growth of the labour force over a prolonged period.

¹See CEPAL, *Serie histórica del crecimiento de América Latina*, Santiago, Chile, 1978, table 1.

²The national accounts begin in 1946.

³Domestic price indexes are available from 1936 onwards. At all events, it can be stated that no one living in Costa Rica at present has experienced inflation as severe as that in 1981.

⁴Up to the end of the nineteenth century, Costa Rica, like most of the countries of the region, used the bimetallic system (gold and silver). The parities in this system did not vary to any significant degree until 1870, when the value of gold compared with silver entered upon a prolonged period of increase in international markets. In the last years of the nineteenth century, Costa Rica adopted the gold standard and set the value of its new currency, the colón, at 2.15 per US dollar (gold). From that time up to 1980, when the parity of the colón stood at 8.57 per dollar, the exchange rate rose by a total of 329%; between the end of 1980 and the end of 1981, it rose by 366%.

After showing an average annual growth rate of 6.3% in the previous decade, the gross domestic product grew hardly at all in 1980 and declined by nearly 4% in 1981, so that the per capita product fell below the amount achieved four years previously (see table 1 and figure 1).

Gross domestic income, for its part, dropped by over 8% owing to the sharp deterioration in the terms of trade for the fourth consecutive year. Moreover, the drop in the gross national income was greater than 10% because of the rise in interest rates on international markets.

Together with the reduction in the level of activity, the rate of unemployment increased appreciably, rising from 5.3% of the labour force in 1980 to 8.3% in 1981. Between the end of 1979 and the end of 1981, this rate rose from 3.0% to 8.7%, and at the latter date, the rate of urban unemployment was close to 11%. At the same time, inflation, which had been increasing slowly but steadily in the previous four years, accelerated sharply as a result of the severe deterioration of

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	1974	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators								
Gross domestic product at market prices (millions of 1970 dollars)	1 683	1 719	1 813	1 975	2 099	2 202	2 215	2 135
Population (millions of inhabitants)	1.92	1.97	2.01	2.06	2.11	2.16	2.21	2.27
Per capita gross domestic product (1970 dollars)	878	874	901	958	994	1 019	1 001	942
Growth rates								
B. Short-run economic indicators								
Gross domestic product	5.5	2.1	5.5	8.9	6.3	4.9	0.6	-3.6
Per capita gross domestic product	2.9	-0.5	3.1	6.3	3.8	2.5	-1.8	-5.9
Gross domestic income ^b	1.0	4.7	7.9	15.1	4.5	3.9	-0.7	-8.3
Terms of trade	-18.6	12.1	11.2	28.1	-6.8	-4.0	-6.1	-20.7
Current value of exports of goods and services	28.7	11.4	18.2	36.1	5.1	8.9	8.8	-0.7
Current value of imports of goods and services	55.4	-1.3	11.5	32.2	13.7	19.2	8.7	-21.9
Consumer prices								
December to December	30.6	20.5	4.4	5.3	8.1	13.2	17.8	65.0
Variation between annual averages	30.1	17.4	3.5	4.2	6.0	9.2	18.1	36.9
Money (M ₁)	19.2	24.0	30.6	24.4	24.0	10.4	17.0	64.5
Wages and salaries ^c	-9.7	2.3	11.6	9.5	8.8	4.8	-2.9	-12.7
Unemployment rate ^d	...	...	5.0	4.7	4.6	4.1	5.3	8.3
Current income of central government	39.8	18.8	19.7	29.8	14.0	5.3	17.5	46.4
Total central government expenditure	23.8	37.1	28.2	14.6	24.6	20.8	24.9	24.2
Fiscal deficit/total central government expenditure ^e	8.7	33.0	19.4	26.6	36.0	36.0	39.8	29.0
Millions of dollars								
C. External sector								
Trade balance (goods and services)	-237	-166	-146	-164	-269	-425	-460	-107
Balance on current account	-267	-218	-203	-226	-364	-554	-654	-382
Variation in net international reserves	-33	-17	61	110	22	-113	33	-51
External debt ^f	570	700	1 149	1 455	1 822	2 241	3 025	3 564

Source: ECLA, on the basis of official figures.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cGeneral real wage index of members of Costa Rican Social Security Fund.

^dPercentages.

^eGross disbursed external debt.

the colón. Thus, consumer price index rose by 65% between December 1980 and December 1981, while the variation between annual averages was 37%. The wholesale price index, for its part, rose by 117% between the end of 1980 and the end of 1981, with a variation of 65% between annual averages. Owing primarily to the increased inflation but also to the measures taken to contain nominal expenditure, especially in the public sector, real wages and salaries fell by 13% in 1981. Wages and salaries in the public sector fell by 18%, thus returning to their 1979 level.

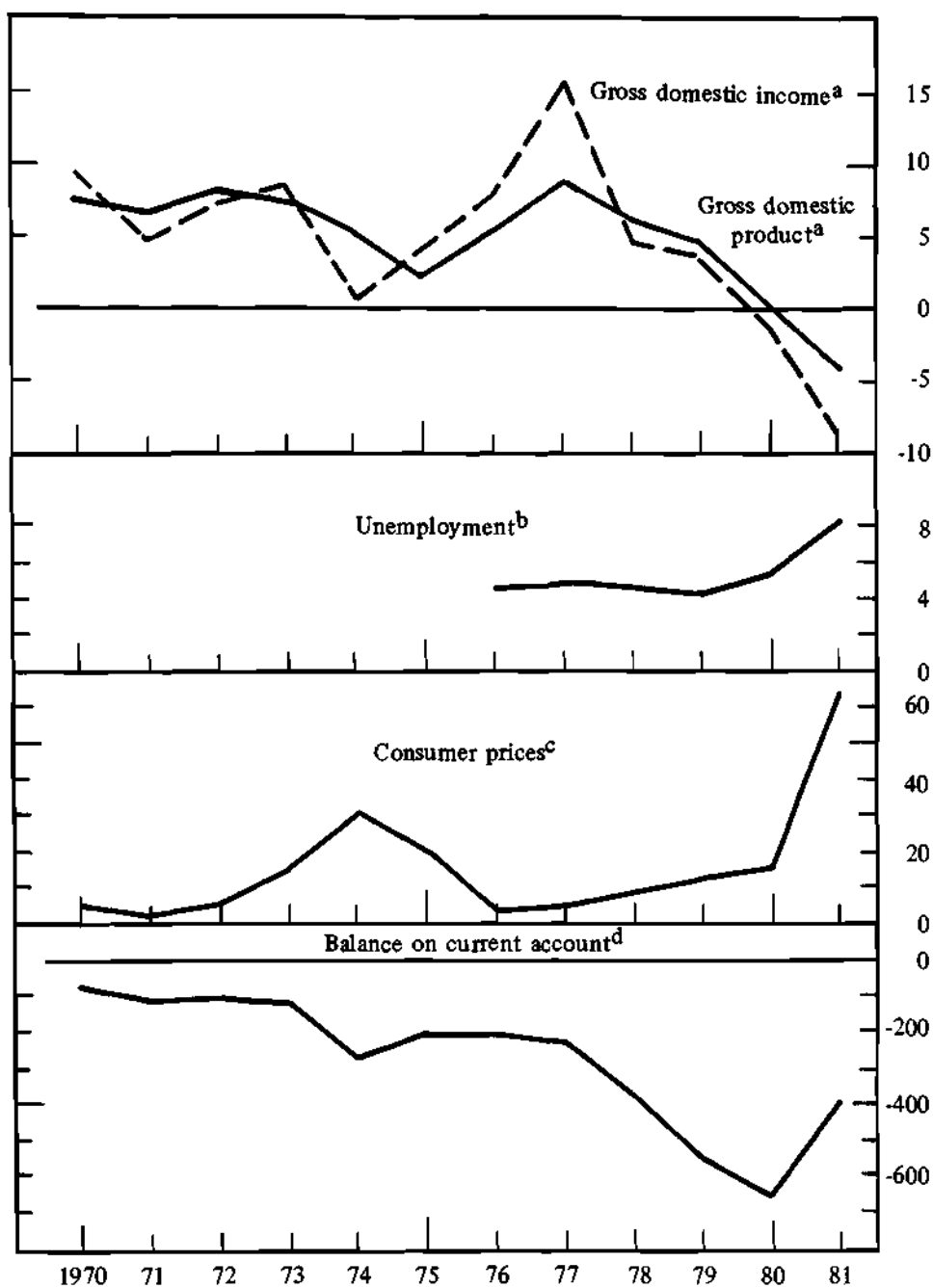
In spite of the magnitude of the reduction in real wages and salaries, the decline in domestic demand primarily reflected the very sharp contraction in investment. Thus, gross domestic investment fell by over 32% after having already gone down by 11% in 1980. As in 1980, the drop mainly affected investment in machinery and equipment, as well as involving a further substantial decline in stocks. Unlike what had happened in 1980, however, in 1981 the decline in investment affected both the public and private sectors. In part, the behaviour of domestic demand, especially where investment was concerned, may be attributed to the severe real and financial restrictions which made themselves felt on the supply side. Thus, the volume of imports of goods and services went down by over 26% in 1981 after the decrease of 8% the previous year, while the real availability of credit fell by over 24%. A big impact was also had by the containment of public expenditure, which declined by 23% in real terms, and by the loss of confidence by part of the private sector in the future of the economy, which was reflected not only in the drop in investment but also in the flight of capital. Finally, an independent impact was had by the acceleration of inflation, with most of the indicators of the economy falling in real terms. Perhaps the most outstanding example of this was the aforementioned drop in real wages and salaries. Within this situation, the vigorous growth in the volume of exports, which rose by 18%, emerged as a positive element. This development, after several years of stagnation, was brought about principally by the notable improvement in the real exchange rate.

With regard to the gross domestic product by sectors, the recession mainly affected construction and commerce. The product of the former activity fell by nearly 22%, which, together with the drop of over 9% the preceding year, meant that it fell back to the level at which it had stood before 1976. Commerce, too, saw its product reduced for the second consecutive year, the decline in this case being over 16%. The other activities showed slight variations of between -1.6% for community and social sectors and +2.3% for agriculture. This last result reflected an improvement over the performance in the period 1979-1980, when the level of activity of this sector declined. The only branch which continued to show dynamism was electricity, gas and water, which grew by over 8%, after the expansion of 11.5% recorded the preceding year. The entry into operation of the large Arenal dam was the main cause of this development. The opening of this dam has meant that the goal of dispensing with hydrocarbons for the generation of electric power has almost been achieved.

The volume of exports grew by nearly 18% in 1981, primarily because of an increase of no less than 30% in the volume of coffee sales abroad. This great effort was more than offset, however, by the worsening in the terms of trade, and since at the same time the country lost its access to the international capital market and a flight of domestic capital was set off, the capacity for importing fell markedly. In these circumstances, in the absence on any net external assets, it was necessary to reduce the volume of imports of goods and services radically, and indeed these dropped by nearly 27%, causing a return to the level of 1974. Had it not been for the moratorium on debt servicing in the second half of the year, however, the volume of imports could have fallen by nearly as much as 50%. The US\$ 350 million freed by not making the amortization and interest payments financed over 27% of the imports of goods and services and came very close to the total deficit on current account, which was reduced from the equivalent of 12% of the gross domestic product in 1979-1980 to the equivalent of 6.8% of the product in 1981.

Early in 1980 the Government formulated a stabilization plan under a stand-by agreement with the International Monetary Fund in order to tackle the country's economic situation, which was already critical. This plan proposed to keep the expansion of domestic demand to a minimum and reduce the big current account deficit, basically through an appreciable reduction in the fiscal

Figure 1
COSTA RICA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate, whole country.

^cPercentage variation, December to December.

^dMillions of dollars.

deficit, which had amounted to 7% of the gross domestic product in the previous year. The option of modifying the overvalued exchange rate was not only rejected, but it was announced that the purpose of the plan was to defend the current exchange rate. Subsequently, however, it proved impossible to moderate the deficit in the public finances, which even rose to the equivalent of 9.5% of the product. At the end of 1980 the pressure on the colón, which had until then been bottled up, made it unavoidable to effect a *de facto* devaluation of nearly 100%. After long negotiations, in May 1981 a new agreement was reached with the Fund to support a more rigorous stabilization programme. One of the main policies in this plan was the modification of the exchange policy. Another was the definitive placing of the public finances on a sounder basis. A restrictive monetary policy was also programmed.

In 1981 the financial situation of the public sector improved considerably, largely because of the great progress achieved in redressing the precarious financial position of the central government. In its budgetary operations, the central government showed a surplus for the first time since 1977 and reduced its total deficit by 60%. It was therefore able to reduce its utilization of domestic credit by a similar proportion. This result was attributable to the vigorous growth in revenues and the drastic reduction of expenditure. Current income expanded by 42%, coming close to the budgetary goals. Total expenditure, for its part, rose by barely 3%, which amounted to a reduction of one-third in real terms.

For the consolidated non-financial public sector, the total deficit was reduced by nearly 38% at current prices and by over 50% at constant prices. As a share of the product, it was reduced from 9.5% the previous year to 4.1%. At the same time, this sector's net absorption of domestic credit fell from an amount equalling 6.4% of the product in 1980 to one equivalent to 1.7% in 1981.

Even though it had not proved possible to carry out the tax reform contemplated in the stabilization plan, the quantitative goals for the public finances set in the agreement with the International Monetary Fund were largely achieved. Most of the remaining results turned out very differently from what had been anticipated, however. In the circumstances which prevailed in 1981 the very restrictive fiscal policy became yet another factor of depression, rather than a means of liberating resources for use by the private sector. In the absence of special international financial support, however, it would appear that there was no other alternative.

The nominal growth of domestic credit, for its part, remained far below the rate of inflation. Thus, the expansion of domestic credit between the end of 1980 and the end of 1981 was only just over 15% whereas inflation came to 65% in terms of the consumer price index and to 117% in terms of the wholesale price index. As a proportion of the product, domestic credit fell from 51% in 1980 to 40% in 1981. There can be no doubt that the substantial reduction in the real supply of credit contributed to the recession in the level of activity. Consideration might have been given to an alternative policy, accompanied by supplementary measures such as higher tariffs and more rigorous price controls, in order to keep a bigger supply of credit from worsening the balance-of-payments situation or making inflation more severe. It is clear, however, that a greater expansion of credit would not have solved the two basic problems faced by the economy — the severe shortage of foreign exchange and the intense inflationary process; on the contrary, it might have made the situation worse. In this connection, it might be considered that the pronounced reduction in the real supply of domestic credit was merely the corollary to its very large growth of previous years.

2. Trends in economic activity

(a) *The product and the income*

In 1980 the long period of economic growth was interrupted, and in 1981 a downright reversal in development was recorded. Thus, after growing at an average annual rate of 6.6% between 1961 (the last year in which there was a reduction in the gross domestic product) and 1979, the level of activity in 1981 was 3% lower than the figure recorded two years previously (see table 2). As for the gross national product, this had begun to decline in 1980, and in 1981 it fell by a further 5%. Gross national income, for its part, also fell for the second year running, but in 1981

the drop was greater, amounting to 10.5% and bringing it to a level 6% lower than in 1978. This decline was brought on primarily by the intensification of the deterioration in the terms of trade. In 1977 the variation of relative prices in the international economy led to an increase in income equal to 4.1% of the gross domestic product, but in 1981 this variation caused a drop in income equal to 4.7% of the product. The amount lost in 1981 was almost equal to the entire contribution of construction to the product.

The biggest decrease, however, was the drop of over 14% in the gross domestic supply. As a result, both domestic supply and domestic expenditure were less than the product for the first time in 30 years.

(b) Total supply and demand

As a result of the persistent contraction in the volume of exports and the further deterioration in the terms of trade, on the one hand, and the substantial drop in private demand for investment on the other, the total supply began to decline in 1980. In 1981, in addition to the much bigger and more generalized drop in domestic demand, external financing became virtually non-existent, and the terms of trade worsened yet again. In these circumstances, the total supply fell by over 8%, bringing it back to the level at which it had stood nearly four years before (see table 3).

This recessive situation was characterized, on the demand size, by the substantial increase in the volume of exports. This was partly related to the considerable drop in domestic demand, but in view of the magnitude of the rise in the exchange rate, it would seem correct to attribute to the latter the leading role in the expansion of exports. This positive element, which in normal years might have imparted dynamism to the rest of the economy, was on this occasion cancelled out by the very adverse evolution of the terms of trade and by the sharp drop in the real supply of credit, both domestic and external.

The outstanding feature of domestic demand, for the second year running, was the serious decline in investment, whose dynamism had in the past promoted the growth of the economy. Thus, between 1970 and 1979 gross fixed investment rose at an average annual rate of nearly 11%, while the gross domestic product expanded at a little over 6%. Between 1979 and 1981, however,

Table 2
COSTA RICA: SOME PRODUCT AND INCOME DATA

(Millions of dollars at 1970 prices)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
1. Gross domestic product at market prices	1 282	1 369	1 481	1 595	1 683	1 719	1 813	1 975	2 099	2 202	2 215	2 135
2. Indirect taxes	143	158	172	184	190	194	210	224	239	258	259	246
3. Subsidies		6	7	7	3	3	9	4	5	13	13	
4. Gross domestic product at factor cost (1 - 2 + 3)	1 139	1 217	1 316	1 418	1 496	1 528	1 612	1 755	1 865	1 957	1 969	1 898
5. Net imports of goods and non-factor services	66	81	28	36	33	29	52	165	181	212	168	-65
6. Net factor payments to the rest of the world ^a	10	11	28	24	17	28	31	32	46	55	69	93
7. Terms-of-trade effect	-	-23	-37	-28	-100	-62	-27	81	51	31	3	-101
8. Gross domestic supply (4 + 5)	1 206	1 298	1 344	1 453	1 529	1 557	1 664	1 921	2 046	2 169	2 137	1 833
9. Gross national product (4 - 6)	1 129	1 206	1 288	1 393	1 480	1 500	1 581	1 724	1 820	1 902	1 900	1 805
10. Gross national income (4 - 6 + 7)	1 129	1 182	1 251	1 365	1 379	1 438	1 554	1 805	1 871	1 933	1 903	1 703

Source: ECLA, on the basis of data supplied by the Central Bank of Costa Rica.

^aIncludes unrequited private transfer payments.

Table 3

COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	2 851	2 811	2 574	127.5	120.5	4.9	-1.4	-8.4
Gross domestic product at market prices	2 202	2 216	2 136	100.0	100.0	4.9	0.6	-3.6
Imports of goods and services ^b	649	595	438	27.5	20.5	5.0	-8.3	-26.4
Total demand	2 851	2 811	2 574	127.5	120.5	4.9	-1.4	-8.4
Domestic demand	2 414	2 384	2 071	105.8	97.0	5.9	-1.2	-13.1
Gross domestic investment	603	537	364	24.0	17.0	9.2	-10.9	-32.2
Gross fixed investment	620	549	407	21.2	19.1	15.5	-11.5	-25.9
Construction	289	269	212	10.2	9.9	18.9	-6.9	-21.2
Machinery and equipment	331	280	295	11.0	9.2	12.6	-15.4	-30.4
Changes in stocks	-17	-12	-43	2.8	-2.1	...	...	...
Total consumption	1 811	1 847	1 707	81.8	80.0	4.8	2.0	-7.6
General government	307	317	294	13.1	13.8	7.7	3.3	-7.3
Private	1 504	1 530	1 413	68.7	66.2	4.2	1.7	-7.6
Exports of goods and services ^b	437	427	503	21.7	23.5	-	-2.3	17.8
Terms-of-trade effect	31	3	-101	-1.7	-4.7	...	...	...

Source: ECLA calculations, on the basis of figures supplied by the Central Bank of Costa Rica.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

gross fixed investment fell by over 34%, and total investment by 40%. The recessive performance of domestic demand was complemented by the drop in public and private consumption: something without precedent in the country's national accounts.

The tremendous reduction in domestic demand was caused largely by the sharp acceleration of inflation. In addition, however, to the normal lag observed in the recovery of other variables in the presence of inflation—a lag which is usually even greater in economies like that of Costa Rica, with no history of inflation—an influence was exerted on this occasion by the deliberate containment of nominal expenditure. In view of the big external gap and the refusal of the authorities to modify the exchange policy, the idea had spread in economic circles since the previous year it was necessary to moderate the growth rate of expenditure considerably. In the case of the public sector, this idea took the shape of a budget for 1981 which aimed at restricting public expenditure severely and a monetary programme which provided for a reduction in the real liquidity of the economy and even more severe limitations on credit, especially that intended for financing consumption. In the private sector, it was reflected primarily in the marked reduction in purchases of capital goods and in the smaller number of building permits, but also in reduced hiring of labour and the slowing-down of wage increases. During 1981, this situation was compounded by the need for even greater sacrifices when the external position worsened.

(c) Investment and savings

As had happened in 1980, the reduction in investments had a more pronounced effect on capital formation in machinery and equipment than on construction. At all events, however, both branches suffered drastic reductions in 1981. There was also a reduction in stocks for the third year running, and here again the magnitude of the decrease was much greater than in the past (see table 3).

As to the performance of investment by sectors in 1981, both public and private investments declined radically, the former by 21% and the latter by 28%. In the two preceding years, private fixed investment had fallen by over 40%, and as a result its 1981 level was barely higher than that of 1973. Consequently, the tendency towards a decline in its relative share in total investment, already noted since before 1980, became more marked (see table 4). There can be no doubt that, in addition to the effects of the real and financial restrictions on private investment mentioned above, the conflicts in neighbouring countries and the erratic way in which the economic policy was conducted helped to undermine the confidence in the future of part of the private sector. Finally, the drop in investment was also partly attributable to the measures decreed in the fourth quarter of the year prohibiting the importation of various kinds of capital goods.

Gross domestic saving performed differently from investment, since it grew vigorously in 1981, increasing by 16.5% at constant prices. Furthermore, due to the magnitude of their opposite trends, domestic saving exceeded investment for the first time since 1952. This favourable development, however, which reflected both the upheaval in the financial situation of the public sector and the improvement in the performance of the private sector, was to a large extent frustrated by the worsening in the terms of trade and by the rise in interest rates. Thus, between 1980 and 1981 gross domestic saving increased from 69% to 117% of gross fixed investment, but gross national saving rose only from 56.4% to 64.5% (see table 4).

Table 4
**COSTA RICA: COMPOSITION, ORIGIN AND FINANCING
OF GROSS DOMESTIC INVESTMENT^a**
(Percentages of the gross domestic investment for each year)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Composition									
Construction	42.1	43.8	49.4	49.1	43.0	44.1	47.9	50.1	58.2
Machinery and equipment	49.3	49.0	51.3	49.3	47.1	43.7	54.9	52.1	53.6
Changes in stocks	8.6	7.2	-0.7	1.6	9.9	2.2	-2.8	-2.2	-11.8
Origin									
Private sector	72.2	73.0	61.3	65.0	68.2	67.7	66.9	61.9	59.6
Public sector	27.8	27.0	38.7	35.0	31.8	32.3	33.1	38.1	42.4
General government	14.9	14.7	16.1	16.3	18.2	15.9	19.2	...	...
State enterprises	12.9	12.3	22.6	18.7	13.6	16.4	13.9	...	...
Financing									
Gross domestic savings	89.1	91.0	91.9	88.2	66.7	66.3	64.8	68.7	117.9
Net factor payments to the rest of the world	-7.4	-4.6	-7.9	-7.1	-6.3	-8.5	-9.1	-12.8	-25.5
Terms-of-trade effect	-8.5	-27.8	-17.3	-6.0	16.3	9.5	5.2	0.5	-27.9
Gross national savings	73.2	58.6	66.7	75.1	76.7	67.3	60.9	56.4	64.5
Fixed capital consumption	24.8	22.8	25.7	22.0	18.4	20.0	19.6	22.9	35.1
Net national savings	48.4	35.8	41.0	53.1	58.3	47.3	41.3	33.5	29.4
Public sector	16.1	23.0	22.8	17.3	15.2	13.1	1.2	-2.4	...
General government	9.8	17.3	14.6	9.8	9.3	7.5	-1.8	...	...
Central government	6.7	12.4	3.9	0.4	2.7	-4.6	-9.1	-13.9	...
Other	3.1	4.9	10.7	9.4	6.6	12.1	7.3	...	...
State enterprises	6.3	5.7	8.2	7.5	5.9	5.6	3.0	...	...
Private sector	32.3	12.8	18.2	35.8	43.1	34.2	40.1	35.9	...
External savings	26.8	41.4	33.3	24.9	23.3	32.7	39.1	44.6	35.5

Source: ECLA, on the basis of official data supplied by the Central Bank of Costa Rica, World Bank data, and own estimates.

^a Dollars at 1970 prices.

Table 5

COSTA RICA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product^b	1 958	1 969	1 899	100.0	100.0	4.7	0.6	-3.6
Goods	865	851	827	45.0	43.6	4.1	-1.6	-2.8
Agriculture, hunting, forestry and fishing	371	368	376	24.5	19.8	0.5	-0.8	2.3
Mining and quarrying	350	353	349	15.3	18.4	2.7	0.8	-1.1
Manufacturing	144	130	102	5.2	5.4	19.3	-9.4	-21.5
Construction	184	197	202	7.1	10.7	10.7	6.7	2.9
Basic services	43	48	52	2.1	2.7	5.4	11.5	8.4
Electricity, gas and water	141	149	150	5.0	8.0	12.4	5.2	1.1
Transport, storage and communications	905	914	865	47.9	45.7	4.6	1.0	-5.3
Other services	309	304	254	16.8	13.4	4.1	-1.3	-16.3
Wholesale and retail commerce, restaurants and hotels	272	281	287	13.5	15.2	6.8	3.4	2.2
Financial institutions, insurance, real estate and business services	139	141	143	8.2	7.5	4.2	1.9	1.2
Ownership of dwellings	324	329	324	17.6	17.1	5.4	2.0	-1.6
Community, social and personal services	231	236	236	12.1	12.5	5.9	2.0	-
Government services								

^a Preliminary figures.^b As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

A long-term trend worthy of special mention because of its direct impact on the development of the crisis is the drop in the effectiveness of investment. In the postwar process of economic growth, key roles were played by the intensive growth of capital formation and by the high and growing yield of investment. Thus, between 1950 and 1973 the annual average rate of expansion of gross fixed investment was 8.5%, while the average marginal ratio capital/product stood at the very low figure of 1.25 in the first half of that period, falling to 1.14 in the second half. Subsequently, the average growth rate of gross fixed investment rose to over 11% per annum, but the effectiveness of capital formation decreased markedly in this period, as shown by the rise in the marginal ratio capital/product to an average of 1.98 between 1973 and 1979. So pronounced was the loss in effectiveness that the growth rate of the product fell in spite of the marked increase in capital formation.³

A rigorous identification of the causes of this reverse is beyond the scope of this study, but it has been due at least partly to structural changes such as the spatial displacement of the population and the exhaustion of the agricultural frontier. The first factor has made it necessary to invest heavily in urban infrastructure, and although this has made life more pleasant, it has not helped to increase the productive capacity of the economy. The second factor requires bigger investments to keep the average productivity of the land and of the agricultural labour force from decreasing. Other causes include the probable effects of the exhaustion of the easy stages of import substitution and the excessive investment in fixed capital usually observed in highly protected markets in the long run. With regard to economic policy, it seems clear that the policy of

³ Between 1950 and 1973, the average growth rate of the gross domestic product was 7.0%. Between 1973 and 1979, it fell to 5.5%.

permitting considerable overvaluation of the colón adversely affected the efficiency of the economy by lessening the profitability of the export sector and blocking further possibilities for expanding into external markets. Finally, it is probably not merely by chance that lower effectiveness of investment has coincided with the oil crisis, since in order to make the economy less dependent on imported petroleum it has been necessary to make heavy investments which are only now beginning to bear fruit.

(d) *Evolution of the main sectors*

(i) *Introduction.* The evolution of the gross domestic product varied from one branch of activity to another, with spectacular slumps in construction and commerce, a somewhat less pronounced decline in other services, a slight decrease in manufacturing and little or no change in the provision of public services. In contrast, small increases were recorded in agriculture, transport, ownership of dwellings and the financial sector, while there was an appreciable increase in electric power generation (see table 5).

(ii) *The agricultural sector.* In the midst of a recessive economic situation, the global results for the sector in 1981 showed a slight recovery of 2% in production, after the drop experienced in 1980 and the virtual stagnation in 1979. The result differs, however, when crop years are compared with calendar years. Thus, in the case of coffee, which is the sector's main product, the excessive rains affected the flowering and led to an appreciable drop in production in the 1981/1982 growing season, which will be reflected in the volumes available for export in 1982. On the other hand, when the evolution of this commodity in the course of the calendar year is examined, an increase of nearly 5% is observed.

The expansion of the agricultural sector as a whole conceals differences in the performance of the individual branches: thus, export commodities rose by 4%, items for domestic consumption deteriorated by over 9%, while the livestock, forestry and fishery branches grew by between 2% and a little over 3% (see table 6).

Bananas showed a sharp recovery thanks to the absence of the labour problems which affected this crop during the previous two years. The harvest also had the incentive of an increase in international prices and the steady devaluation of the colón. On the other hand, however, the excessive rains limited the growth of production.

Cocoa and sugar cane showed negative results. In the case of cocoa, the drop amounted to 47%, owing primarily to neglect of the plantations and to the fact that nothing had been done to combat disease in recent years, owing to the severe deterioration as regards prices and costs.

The sugar cane harvest, for its part, fell slightly and thus continued its poor performance for yet another year. This was due to the growing tendency to move sugar cane cultivation from the central plateau to less fertile areas where, however, lower land costs and smaller competition from other crops facilitate the establishment of sugar mills and make operations more profitable.

With respect to products for domestic consumption, rice, maize and sorghum showed substantial decreases, partly attributable to the scant credit support received by producers (see table 6). In the case of rice, the Government's policy was in fact aimed at discouraging its cultivation beyond the limits set by domestic demand, in order to avoid external sales at subsidized prices. On the other hand, the primary cause of the drop in maize production was the erratic rainfall, which thwarted the incentive provided by the increase of close to 30% in the support price granted in May. Sorghum production, also harmed by adverse weather conditions, fell by 25%. This will undoubtedly be reflected in the availability of chicken and pig feed during 1982, sorghum being the basic grain used to feed animals. The output of beans, on the other hand, was satisfactory, thanks primarily to the good guaranteed prices.

The livestock sector, for its part, recovered somewhat from the decline recorded in previous years. Meat production recovered almost completely, while the output of milk and other products derived from the stockbreeding sector showed moderate increases. This recovery was due primarily to a promotion policy initiated in previous years on the basis of credits granted through the banking system.

Table 6

COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates ^b			
					1978	1979	1980	1981 ^a
Index of agricultural production (1975 = 100)	135.2	135.7	132.3	134.9	5.9	0.4	-2.5	2.0
Crop farming	130.5	130.8	131.5	133.6	6.2	0.2	0.5	1.6
For export	124.7	123.6	120.0	126.7	8.7	-0.9	-1.3	3.9
For domestic consumption	160.6	168.8	180.9	163.9	-3.1	5.1	7.2	-9.4
Livestock	140.0	139.6	130.8	133.8	6.5	-0.3	-6.3	2.3
Forestry	134.9	134.9	132.0	136.7	-10.0	-	-2.1	3.6
Fishing	297.2	350.1	248.3	257.0	29.7	17.8	-29.1	3.5
Production of principal crops^c								
For export								
Coffee	98	99	109	114	13.0	-	10.3	4.6
Bananas	1 183	1 154	1 021	1 106	5.2	-2.4	-11.6	8.3
Sugar cane	2 579	2 615	2 516	2 500	2.4	1.4	-3.8	-0.6
Cocoa	10	10	11	6	34.9	-0.2	4.2	-47.3
For domestic consumption								
Rice	124	137	152	138	12.4	11.0	10.6	-9.1
Maize	62	73	74	60	-26.5	17.0	2.1	-19.9
Beans	14	11	11	12	-0.3	-19.2	1.8	7.0
Sorghum	53	34	42	31	28.3	-36.1	23.8	-25.0
Tobacco	2	2	2	2	-13.5	-12.5	-23.8	12.5
Plantains	76	81	95	...	10.0	6.7	16.2	...
Indicators of livestock production								
Animal slaughtered ^c								
Cattle	146	137	119	141	8.8	-6.2	-13.6	18.5
Pigs	15	20	20	21	18.9	34.8	-1.6	5.0
Poultry	6	6	6	6	3.0	-	4.4	-
Milk ^d	301	306	308	320	3.6	1.8	0.7	3.9
Eggs ^e	376	371	391	395	2.0	-1.4	5.5	1.0
Indicators of forestry production								
Timber ^f	650	650	636	636	-10.0	-	-2.1	-
Indicators of fishery production^g	21	25	18	18	29.6	17.8	-29.1	-

Source: ECLA, on the basis of official data.

^a Preliminary figures.^b The growth rates correspond to real, not rounded, figures.^c Thousands of tons.^d Millions of litres.^e Millions of units.^f Thousands of cubic metres.

In the fishery sector, the production capacity was raised through the purchase by the Puntarenas Small-scale Fish Producers' Co-operative, as part of the National Fishery Programme, of new boats built in Mexico and financed by the Inter-American Development Bank (IDB). In addition, the National Production Board finished the formulation of a project for a new fishery terminal in Puntarenas, which it is hoped will also be financed by IDB. The size of the catch, however, remained very much lower than in the past.

(iii) *Manufacturing.* According to preliminary calculations, the value added by manufacturing declined by 1% in 1981 after the virtual stagnation of the year before. It may be noted in this connection that the statistics for the first half of the year on employment and the consumption of electricity by industry suggest a greater decrease (see table 7).

No disaggregated official information is available on the evolution of the various industrial branches; however, according to an analysis carried out by the Institute of Economic Research of the University of Costa Rica the recession had its biggest impact in the metal manufactures and machinery and non-metallic minerals sectors, where production seems to have fallen by 13% and 20%, respectively, between the first half of 1980 and the same period in 1981. In the case of the first of these sectors, the drop may be explained by the sharp increase in the price of imported inputs. In the case of non-metallic minerals, the decline appears to be related to the slump in the construction sector and, in particular, the drop in residential building. As for the food branch, if the coffee-processing, sugar-milling and cattle-slaughtering sections are excluded, the remainder of the branch (of great importance in the productive structure) seems to have declined by approximately 4%. Finally, significant dynamism seems to have been shown only by the paper and paper products industry and the chemical industry, thanks, in the latter case, to the recovery of sales of fertilizers abroad.

Because of the need to attenuate the financial bottlenecks, the Government's economic policy sought to promote the production of manufactures for the external market. To this end, special efforts were made to secure the approval by the Legislative Assembly of the law providing

Table 7

COSTA RICA: INDICATORS OF MANUFACTURING PRODUCTION

	1977	1978	1979	1980	1981 ^a	Growth rates ^b			
						1978	1979	1980	1981 ^c
Index of value added (1977 = 100)	100.0	108.2	111.1	112.0	110.8	8.2	2.7	0.8	-1.1
Non-durable consumer goods	100.0	104.6	106.5	107.7	...	4.6	1.8	1.1	...
Foodstuffs, beverages and tobacco	100.0	109.4	112.7	113.7	...	9.4	3.0	0.9	...
Coffee processing	100.0	116.9	115.5	116.2	...	16.9	-1.2	0.6	...
Meat	100.0	100.3	97.3	95.2	...	0.3	-3.0	-2.2	...
Sugar	100.0	98.2	99.6	97.4	...	-1.8	1.4	-2.2	...
Other foods	100.0	108.8	114.2	115.9	...	8.8	5.0	1.5	...
Textiles, leather and footwear	100.0	97.5	94.6	92.7	...	-2.5	-3.0	-2.0	...
Furniture and wood	100.0	85.0	92.7	104.7	...	-15.0	9.0	13.0	...
Printing, publishing and related industries	100.0	110.0	115.1	125.5	...	10.0	4.6	9.0	...
Others	100.0	103.0	107.0	111.3	...	3.0	3.9	4.0	...
Intermediate goods	100.0	109.2	114.0	122.9	...	9.2	4.4	7.8	...
Paper and paper products	100.0	105.6	117.0	125.0	...	5.6	10.8	6.8	...
Chemical products and rubber	100.0	112.7	118.0	127.4	...	12.7	4.7	8.0	...
Petroleum refining	100.0	108.0	107.4	113.9	...	8.0	-0.5	6.0	...
Non-metallic minerals	100.0	101.4	105.5	115.0	...	1.4	4.0	9.0	...
Metal manufactures and machinery	100.0	108.9	115.5	115.9	...	8.9	6.0	0.4	...
Other indicators of manufacturing production									
Employment (1968 = 100)	185.4	186.8	190.4	187.6	180.2 ^c	0.8	1.9	-1.4	-5.4 ^d
Industrial consumption of electricity (1970 = 100)	243.0	279.7	290.1	314.7	...	15.1	3.7	8.5	-9.8 ^d

Source: ECLA, on the basis of data supplied by the Costa Rican Ministry of Economic Affairs, Industry and Commerce and the Central Bank of Costa Rica.

^aPreliminary figures.

^bThe growth rates correspond to real, not rounded, figures.

^cAverage January-June.

^dVariation between January-June 1980 and January-June 1981.

incentives for export industries, and this was finally achieved at the very end of the year. This law provides for the establishment of Free Zones for the installation of industries processing goods for exports, and for the corresponding industrial parks.

In the midst of the recession, several projects of some significance in the manufacturing sphere were inaugurated under the sponsorship of the Development Corporation (CODESA). First, in February a modern factory manufacturing aluminium products (primarily discs, paper and sheets) entered into operation with prospects of exporting in the immediate future. Second, the Mohín Free Zone, designed to promote the installation of export industries, was put into operation. At present progress is being made there in the execution of two projects soon to be opened: a toy factory, with investments from Taiwan, and a factory manufacturing pharmaceuticals, with Spanish capital. In 1981 the Consorcios Industriales de Agua Caliente S.A., shoe and leather factory went into operation in the Cartago Industrial park, and it is expected that it will reach full capacity in 1982, with its output intended for export. In addition, work is continuing on the expansion of a dairy products plant, which will enable the national supply to be expanded considerably in the near future. Furthermore, the Montecillos Co-operative, an important project for the export of beef, chicken, and fish, is now in operation.

As an example of the initiatives taken by the private sector to cope with the crisis, mention may be made of the ready-made clothing industry, where the enterprises reached an agreement to organize themselves so as to be able to tackle the financial and distribution difficulties they were experiencing. In this connection, it is planned to establish a marketing enterprise to promote and facilitate their sales abroad.

(iv) *Construction.* The construction sector, which had been one of the most dynamic up to 1979, again bore the brunt of the effects of the crisis, and in 1981 its level of activity fell by over 21%, after having already declined by 9% the year before, while the reduction in the area constructed (25%) was even greater. The decline in the sector's activity in 1980 was due to a substantial drop in private construction, which was not compensated for by the rise in public construction, but in 1981 there was an across-the-board decline when the Government applied an austerity policy on expenditure.⁶ In spite of this, some important works, such as the expansion of the Puerto Limón docks with German technical and financial support, were completed, while work also continued in connection with some priority projects such as those at Puerto Caldera on the west coast.

With regard to the causes of the further drop in private construction, a study carried out by the Costa Rican Chamber of the Construction Industry during the third quarter of the year showed that increased costs were the prime obstacle to the normal development of the sector. In this connection, the costs of finance and inputs were particularly burdensome.

(v) *Basic services.* Basic services—both electricity, gas and water and transport, storage and communications—showed an increase in 1981. The case of electricity is particularly noteworthy, since in this sector the entry into operation in 1980 of the Arenal dam helped to raise the level of energy produced during 1981 by 8%. This result—the main achievement of the energy policy—made it possible not only to expand the country's energy base considerably but also practically to accomplish the original goal of completely replacing imported hydrocarbons in the generation of electric power. It also marked a big step forward in the execution of the plan to supply the urban centres effectively and to extend the provision of electric power to rural areas. On the other hand, financial problems made it necessary to postpone the initiation of other important works in the energy field.

(vi) *Other services.* Within this category, commerce was the branch most affected by the crisis, reflecting the major reduction in domestic demand (three times that of the drop in the gross domestic product) and the very slump decline in imports. Financial activity, for its part, continued to grow—in spite of the sharp reduction in the real supply of credits—thanks to unusually high

⁶In the period 1977-1979, public construction represented 30% of the total. In 1980-1981, the decline in private construction was so great that public construction rose to 40% of the total in spite of the fact that it too declined in 1981.

real interest rates. Since 1978, when it was decided to raise interest rates in line with their evolution in the main international markets, the banking and financial sector has been increasing its share in the total value added, so that it has risen from 4.7% in 1977 to 7.8% in 1978.

Ownership of dwellings rose slightly, while the value added by the central government did not change. Finally, the remaining services in this category (predominantly personal services) also suffered from the effects of the recession and fell by close to 5%.

(c) *Employment and unemployment*

By the time the long period of economic expansion came to an end in 1979, the rate of unemployment had fallen to barely 3% of the labour force. Between November 1979 and November 1981, however, it nearly trebled, reaching 8.7%. At the latter date, the rate of urban unemployment was close to 11%, while the number of unemployed had more than trebled. In terms of annual averages, the rate of unemployment rose from 4.1% in 1979 to 5.3% in 1980 and to 8.3% in 1981. In addition, the degree of underemployment of the labour force also rose (see table 8).

Between 1950 and the first oil crisis a high growth rate could be achieved at the same time as stability because it was possible to absorb productively the intensive growth of the labour force. Between the 1950 and 1963 population censuses, the increase in the labour force averaged 2.9%. The growth rate of employment was not much lower, while the annual increase in the product per person employed averaged 3.3%. Subsequently, the growth of the labour force accelerated to the exceptionally high rate of 4% per year. Even so, the economy was capable of providing full employment for this enormous annual increment in the available labour without jeopardizing the growth rate of its productivity, which remained at 3.3% per annum between 1963 and 1973. Unlike what had happened in the preceding period, however, this rate concealed very different performances in the various branches of activity. Thus, the annual variations in the gross

Table 8

COSTA RICA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT^a

	1978			1979			1980			1981		
	March	July	November	March	July	November	March	July	November	March	July	November
Rates of unemployment^b												
Open	4.8	4.5	4.4	4.5	4.9	3.0	4.6	5.9	5.2	7.4	8.7	8.7
Rural	3.7	3.6	3.4	4.0	3.0	2.1	4.0	5.9	4.1	7.2	8.4	6.8
Urban	6.1	5.6	5.7	4.9	5.7	4.0	5.2	5.9	6.3	7.5	9.1	10.7
Urban, Central Valley	6.1	5.3	5.9	4.3	5.6	2.8	4.3	6.2	6.4	7.3	8.4	10.7
Equivalent ^c	6.2	6.3	7.3	7.0	7.2	7.6	8.8	7.6	8.1	8.5	8.7	9.7
Rural	7.2	7.1	8.5	8.1	8.3	8.4	10.3	8.4	9.1	10.0	10.8	10.7
Urban	5.2	6.7	5.8	5.8	6.0	6.8	6.9	6.7	7.0	6.9	6.4	8.5
Urban, Central Valley	4.6	5.0	5.4	5.2	5.5	5.9	6.2	6.1	6.7	6.6	6.0	...
Rate of participation^d	33.4	34.0	37.1	33.5	34.3	35.9	34.4	34.7	37.4	34.5	35.0	38.9
Indexes^e												
Labour force	153.2	157.1	172.8	156.9	162.2	171.1	165.2	168.1	183.2	169.5	173.6	194.3
Employment	152.3	156.7	172.6	156.7	161.3	173.5	164.8	165.3	180.9	164.2	165.6	185.5
Unemployment	184.9	179.1	192.4	176.1	198.8	128.3	189.5	249.9	238.7	313.7	381.3	422.1

Source: ECLA, on the basis of data from the Ministry of Labour and Social Security and the Ministry of Economic Affairs, Industry and Commerce.

^a Figures obtained from the household surveys on employment and unemployment carried out every four months from July 1976 onwards.

^b Percentage of labour force unemployed.

^c Underemployed population expressed in terms of open unemployment.

^d Labour force as a percentage of the total population.

^e Base June 1967, data from the first household survey.

productivity of labour ranged from -0.3% in "other services" to 5.4% in manufacturing.⁷ Rather than being due to dissimilar expansion in production by sector, these disparities in the growth rates of productivity reflected the sharp variations in the increase in employment between the various branches of activity (a phenomenon related to the geographical displacement of a considerable proportion of the population in those years).⁸

There can be no doubt that the productive employment of a 4% increment in the labour force year after year for a prolonged period presents a difficult challenge,⁹ and although it was tackled with great success for over a decade, from 1973 on the increase in employment was accompanied by a dramatic deceleration in the growth rate of productivity. Thus, between 1973 and 1979 the annual increase in the gross productivity of labour barely exceeded 1%. The annual growth rate of productivity in agriculture dropped from nearly 5% in the period 1963-1973 to less than 1% in the period 1973-1979, and in manufacturing the level of productivity even fell.¹⁰ It is important to note that these adverse trends preceded the stagnation and decline of the gross domestic product in the period 1980-1981.

The phenomenon of the gradual slowing-down of productivity, which helps us to understand the development of the economic crisis from another viewpoint, is intimately related to the loss of efficiency. The causes are therefore similar. It is, however, worth focusing briefly on a point not touched upon in the previous discussion —the apparent over-expansion of employment (especially in the public sector) in the period 1973-1979. Throughout the period 1950-1973, employment rose at a rate very similar to that of the growth in the labour force. Later, however, the rate of expansion of employment accelerated notably, rising from 3.9% a year between 1963 and 1973 to 4.4% a year between 1973 and 1979, whereas the growth of the labour force remained at 4% throughout that period. As a result, the rate of unemployment of 7% which prevailed in the previous decade fell to 4% by 1979. The number of unemployed people decreased by 30% in those six years and was not much greater in 1979 than it had been in 1963, when the labour force was approximately half as big as in 1979. What is perhaps most indicative of the tightness of the labour market is the rate of unemployment of heads of household, which amounted to an average of only 1.4% in 1979. An outstanding role in this intense expansion of employment was played by the public sector, in which employment rose during the period 1973-1979 at the rate of no less than 13% per year.

3. The external sector

(a) *Introduction*

After having fallen on average to the equivalent of 6.7% of the gross domestic product during the coffee boom of 1976-1977, the current account deficit expanded to 9.4% of the product in 1978 and to an unprecedented 12.1% in 1979. In 1980, it was again close to the latter figure (see table 9).

In order to bolster the severely weakened external sector of the economy without jeopardizing the growth of the level of activity, the Government decided to increase the country's indebtedness considerably, as had been done with some success in the period 1974-1975. In order

⁷"Other services" include all services except for commerce and for finance and related activities. The data on the labour force and employment come from the Statistics and Census Bureau, *Censo de Población* (1950, 1963 and 1973). The data on gross labour productivity were calculated on the basis of these employment data and the national accounts supplied by the Central Bank of Costa Rica.

⁸The degree of urbanization of the country, which hardly increased at all between the censuses of 1950 and 1963, rose from 34.5% to 40.6% between 1963 and 1973. The proportion of the economically active population residing in urban areas increased slightly more.

⁹In reality, there are few countries which have experienced a similar phenomenon over a significant length of time. In most cases, there was settlement of empty spaces endowed with abundant natural resources, in the nineteenth century.

¹⁰For the years after 1973, the figures for productivity have been based on estimates of the labour force and employment taken from the periodic employment and unemployment surveys carried out by the Ministry of Labour and Social Security and the Statistics and Census Bureau.

to strengthen Costa Rica's position in the international financial markets and also to open new sources of financing, recourse was had to the support of the International Monetary Fund. At the end of 1979 some US\$ 26 million were obtained from the Compensatory Financing Facility, and in March 1980 the Government signed an agreement with the Fund concerning a stabilization programme covered by a stand-by agreement for US\$ 60 million. Only three months later, however, the Government's right to draw on this agreement was suspended because domestic credit to the public sector had expanded more than the amount set in the stabilization plan. Meanwhile, and partially because of the excessive expansion of credit, the already precarious net position of the international reserves continued to deteriorate, until in the middle of the year it fell below zero. In spite of the foregoing, and although during the following months it proved possible to cover the deficit on the current account, towards the end of the year the country's access to the international financial market was virtually closed. In these circumstances, it became impossible to sustain the big external gap, with the result that the pressures on the colón, which had been resisted up to that point, produced a devaluation of nearly 100% at the end of the year.

The country's external position had thus deteriorated to such an extent that the likelihood of success of any stabilization plan which did not involve a moratorium on the servicing of the external debt or a drastic reduction in the level of domestic income was conditional upon a new, but more rigorous and extensive, agreement with the Fund.

Table 9
COSTA RICA: MAIN EXTERNAL SECTOR INDICATORS

	1973	1974	1975	1976	1977	1978	1979	1980	1981
1970 = 100									
Volume of exports of goods and services	128.5	144.6	139.8	147.5	148.2	157.7	157.7	154.2	181.7
Purchasing power of export of goods and services	118.3	108.3	117.5	137.9	177.5	176.1	168.9	155.1	145.1
Purchasing power of net imports of capital ^a	140.3	231.9	160.9	206.4	255.5	253.3	262.0	323.0	63.1
Import capacity	121.9	128.7	124.7	149.1	190.4	188.8	184.4	197.6	131.5
Volume of imports of goods and services	140.0	126.1	121.2	134.2	167.7	180.0	188.9	173.3	127.6
Gross international reserves ^b	1.2	0.7	0.8	1.3	2.0	1.8	0.9	1.1	1.3
GDP = 100 ^c									
Volume of exports of goods and services	25.1	26.8	25.3	25.3	23.4	23.4	22.3	21.7	26.5
Terms-of-trade effect	-2.0	-6.7	-4.1	-1.7	4.6	2.7	1.6	0.1	-5.3
Net factor payments to the rest of the world	-1.7	-1.1	-1.8	-1.9	-1.8	-2.4	-2.8	-3.5	-4.9
Purchasing power of net imports of capital ^d	7.2	9.6	7.6	9.0	9.7	9.9	10.2	12.5	6.7
Import capacity	28.6	28.6	27.1	30.7	36.0	33.6	31.3	30.8	23.0
Volume of imports of goods and services	27.6	28.9	27.2	28.6	32.8	33.1	33.1	30.2	23.1
Trade balance	-2.5	-2.1	-1.9	-3.3	-9.4	-9.7	-10.8	-8.5	3.4
Balance on current account	-6.2	-10.0	-7.8	-6.8	-6.6	-9.4	-12.1	-11.9	-6.8
Total global balance	1.0	-0.4	-0.2	2.2	3.1	0.5	-1.9	0.6	-0.1
Gross international reserves	2.8	1.7	1.7	3.2	5.6	5.0	2.6	2.7	2.3
Gross external debt ^e	25.4	21.3	25.0	38.6	42.5	47.2	48.7	55.2	63.5

Source: ECLA, on the basis of official data.

^a Here defined as the difference between the global balance of payments and the trade balance, plus the use made of credit from the International Monetary Fund.

^b In months of imports of goods and services for each year.

^c At factor cost, in dollars at 1970 prices.

^d Gross imports of capital less amortization payments.

^e Deflated by the price index for imports of goods and services.

The negotiations to reach such an agreement were arduous and dragged on for six months before an Extended Facility agreement was finally signed in June. The new arrangement envisaged external financing in the amount of 275 million Special Drawing Rights (about US\$ 315 million at the time), which was equivalent to 450% of the Costa Rica quota —the maximum amount permissible under the present policy of the Fund. This financing was to be paid out in equal quarterly amounts over a three-year period, subject to the fulfilment —also quarterly— of certain execution criteria, common to this and other types of Fund agreement, designed to measure the progress towards the macroeconomic goals laid down in the stabilization programme which the country undertook to carry out in exchange for the financial support of the Fund.¹¹ As is common in this type of agreement, the authorities undertook not to introduce new restrictions on foreign trade (including multiple exchange rates) or on capital flows or remittances of profits and interests. The agreement also included an undertaking on the part of the Government to carry out broad tax reforms and to devalue the exchange rate officially.

In addition to the first drawing of US\$ 25.6 million from the Extended Facility, in June the country obtained another US\$ 34.2 million from the Compensatory Financing Facility to attenuate the effects of the fresh decreases in its export prices.

Thus, the total financing granted and envisaged for 1981 is estimated to have amounted to 3.4% of the gross domestic product.¹² The difference between that figure and the amount considered necessary to maintain the level of activity, as well as the even greater unfinanced deficits which will probably have to be faced in the projected recovery and growth during the period 1982/1983, meant there would have to be a substantial net flow of resources from other sources of financing, mostly private.

With regard to external financing requirements, the Fund's agreements have traditionally been such that the assistance they provide is necessary but not sufficient for the success of the concomitant stabilization plans. Recently, however, the directives in this connection have been made more flexible, permitting the advance at the first drawing of up to 40% of the total financial support envisaged in an agreement, when the Fund considers that the circumstances justify this. One such circumstance would be the magnitude of the external imbalance.¹³

In spite of the fact that the deterioration of the external sector of Costa Rica was already very far advanced, such an advance payment mechanism did not form part of its agreement with the Fund. In hindsight, even if not at the time, it seems clear that some such special support would have been advisable in this case as well. What is certain is that scarcely a month after the agreement came into force, the weaknesses of the stabilization plan at the external financing level became obvious when the shortage of foreign exchange grew so serious that it was open to doubt whether the external debt obligations could be met without causing much more serious imbalances in the exchange rate and ultimately in the level of activity.

In these circumstances, the Government decided to notify the commercial banks —its principal creditors abroad— that it could service only the short-term debt and would therefore apply what amounted to a roll-over to the rest of its commitments with them (including interest payments) up to September, when it hoped to renegotiate its external debt. Moreover, in August it proposed to the Fund that, in the light of the severe and persistent worsening of Costa Rica's external imbalance, it should be granted advance financing equivalent to about 25% of its Extended Facility entitlement to enable it to meet its other external obligations and keep the domestic market supplied with vital imports until the time of the hoped-for renegotiation at the end of September. Meantime, however, some of the targets of the stabilization plan had already proved to be virtually unattainable owing largely to the drastic weakening of the external position. At the same time, differences in opinion between the various branches of the government had caused the

¹¹These aspects of the agreement are described in section 5: "Fiscal and monetary policy".

¹²With 1980 being taken as the base year.

¹³Provision has already been made for such a privilege in some recent agreements (for example, those reached with Turkey and Jamaica in 1980 and 1981, respectively), with notably positive results.

postponement (in the case of the tax reform) or non-fulfilment (in the case of the exchange rate changes) of undertakings entered into by the Executive in the agreement with the Fund. The Government's petition to the IMF was rejected, however. The Government then decided not even to request the drawing to which it was entitled, and a short time later it started a *de facto* moratorium in respect of virtually all its external debt, as well as its servicing. In addition, it prohibited the import of automobiles and capital goods for agriculture for a period of one year and enforced administrative measures designed to ration foreign exchange and to try to ensure the return to the economy of the foreign exchange generated by exports.

Nevertheless the deterioration in the external sector was inexorable, and resulted in another devaluation of the colón on the parallel market of over 100% between September and October. In the latter month, the Government prohibited the import of the majority of capital goods, took measures to unify the exchange system, and again tried to induce the return to the economy of a greater proportion of the foreign exchange derived from exports, this time by offering a better exchange rate.

In November, the IMF decided to suspend the Extended Facility agreement and at the same time negotiations were begun to replace it with a one-year stand-by agreement for US\$ 100 million. One of the principal obstacles to a new arrangement with respect to the Fund's position was overcome when after months of debate the Legislative Assembly finally approved the devaluation of the official exchange rate in the last week in November. Nevertheless, a new agreement could not be reached, and because of the proximity of the elections, the negotiations were postponed until after the holding of the latter.

With regard to the external debt, at the end of the year negotiations with the commercial banks and holders of bonds were still in progress. One of the principal obstacles to reaching a refinancing agreement was in fact a sharp disagreement between the creditors themselves. The commercial banks wanted a common criterion to be applied to all creditors, whereas the holders of bonds maintained that it was not possible to refinance bonds.¹⁴ The uncertainty generated by the lack of an agreement with the fund and by the forthcoming elections was also partly responsible for the slow pace of the negotiations. Meanwhile the Government of Costa Rica ran up arrears of payments of some US\$ 360 million.

Various aspects of the evolution of the crisis and its dimensions at the external level are set forth in table 9, which shows the sharp variations in the terms of trade, the consistently precarious reserve position of the country, the growing dependence on external capital and the sudden drop in nearly all the principal indicators in 1981. In any case, it is clear that the worsening to untenable levels of the traditional imbalance between the expenditure and the income of the economy was precipitated by the pronounced deterioration in the terms of trade and the sharp rise in real interest rates. It may, however, also be shown that a role was played in the excessive widening of the external gap by internal factors, especially the growing undervaluation of the exchange rate and a high and persistent expansion of the deficit on the public finances. The role of the first of these factors will be examined in the next section.

(b) *The exchange rate*

In spite of its central importance in such a small economy, exchange policy in Costa Rica has traditionally been subject to considerations unrelated to the competitive position of the economy. In the expansive and stable world economy which existed after the Second World War until the first oil crisis, the adverse effects of this approach were not very noticeable, and in any case they were far outweighed by the series of factors which were responsible for the economy's very favourable performance. The revolution in the price of hydrocarbons, the rising cost of basic grains and world inflation, the collapse of the monetary system based on fixed exchange rates, and

¹⁴For further details of the interesting questions surrounding this dispute, see A. Robinson, "Costa Rica plight deepens as the creditors wrangle", *Euromoney*, December 1981; T. Anderson, "The race of shame in the euromarkets", *Euromoney*, January 1982; "Costa Rica: Wrangling over rescheduling", *The Banker*, January 1982.

the slump in the growth of world production and commerce, however, made it necessary, if not to establish an aggressive exchange policy, at least to alter the policy practiced up to that point if the rate of development was to be sustained. Moreover, the expansion and diversification of the manufacturing sector in the framework of the Central American Common Market also made an exchange rate designed to promote the competitiveness of the economy in extra-regional markets increasingly necessary and appropriate. Finally, the marked growth in the commitments of the public sector, without a corresponding increase in its resources, was another important development which needed to be offset by a reshaped exchange policy.

In spite of all these considerations, up to the end of 1980 the traditional policy still prevailed on the whole, with the result that there was a notable deterioration in the exchange rate. Thus, between 1974, when the value of the colón was changed for the first time since 1961, and the last quarter of 1980, when the *de facto* floating of the currency was declared, the effective real exchange rate received for exports went down by over 19% and that paid for imports, by 17% (see table 10, columns 3 and 5, and figures 2 and 3).¹⁵ Moreover, practically the whole of this reduction was concentrated between 1978 and 1980, since the effective real exchange rate for exports declined by 17% between 1978 and the last quarter of 1980. In addition, the loss of competitiveness was still more pronounced in the country's chief export market, for over the period 1974-1980, the real exchange rate for exports (colón/dollar) deteriorated by 22% while between 1970 and 1980 it fell by over 25%.¹⁶

In interpreting these data, it is important to bear in mind that they do not indicate the exact degree to which the exchange rate is over or undervalued, i.e., they do not show the difference between the prevailing exchange rate and that which would be compatible with a given balance on the current or global account of the balance of payments. For these purposes it would be necessary to calculate the net effect of the combined factors which affect the supply of and demand for foreign exchange.¹⁷ At all events, there can be no doubt that the sharp drop in the real value of the colón which occurred after the first oil crisis meant a corresponding drop in the competitive position of the economy. and, indeed, this decline was accompanied by a stagnation of the volume of sales abroad and a very considerable widening of the external gap. Thus, the volume of exports of goods and services rose by barely 1% per annum in this period, while the deficit on current account went from 4.2% of the gross domestic product in 1973 to 11.8% in 1980, excluding the effect of the variation in the terms of trade. Moreover, between 1978 and 1980, when most of the drop in the effective real exchange rate took place, the volume of exports fell by more than 2% and the deficit on current account increased by an amount equivalent to 5% of the gross domestic product (see table 9).

At the end of 1980 the colón began to deteriorate rapidly. From a level of 8.57 per dollar which had remained in effect since 1974, the exchange rate rose to nearly 40 per dollar at the end of

¹⁵ It should be noted that the opposing movement of the indexes which appear in columns 3 and 4 and in columns 5 and 6, respectively, is due to the appreciable difference which exists between domestic inflation as measured by the consumer price index and that calculated on the basis of the wholesale price index. Owing to its limited coverage and to the inclusion of many articles whose prices are subsidized, the consumer price index is not a good indicator of inflation. These two problems do not exist, however, in the case of the wholesale price index, which is therefore more appropriate for measuring inflation, relative prices and the real exchange rate. It is, however, useful to show the distortion caused by the use of the consumer price index in measuring the evolution of the real exchange rate.

¹⁶ During the five-year period 1975-1979, the United States was the main export (and import) market, absorbing some 36% of Costa Rica's total external sales. The Statistical Appendix shows the real exchange rates with respect to the currencies of the main countries which trade with Costa Rica.

¹⁷ An exercise of this kind revealed a significant overvaluation of the colón towards the end of the 1970s. Thus, a recent World Bank study calculated the net impact of trade policies (tariffs and subsidies) on the exchange rate for the year 1979 and concluded that in that year the exchange rate was undervalued by at least 18%, since if all the tariffs (and subsidies) were eliminated, the exchange rate would have to be increased by that amount to keep the existing deficit on current account from increasing. To reduce the deficit to half of that recorded in 1979 without using tariffs (or subsidies), the exchange rate would have to be increased by 34%. See World Bank, *Costa Rica: Trade Incentives and Export Diversification*, Washington, D.C., 5 November 1980, pp. 38-39 and annex 23.

1981.¹⁸ On average, the effective nominal exchange rate for exports rose by 140% between 1980 and 1981, and the corresponding real exchange rate rose by 72%.

This rise in real terms appreciably exceeded the variation which would have been necessary to rule out the overvaluation of the colón, being nearly as four times as great as the drop in the effective real exchange rate between 1974 and 1980. In these circumstances, the effect on the external sector was very marked. The volume of exports of goods and services grew by nearly 18%, while that of imports of goods and services fell by over 25%. As a result, the first surplus at constant prices on the trade account since 1952 was recorded. As for the deficit on current account at constant prices, this fell from 11.8% of the gross domestic product in 1980 to barely 1.5% in

Table 10

COSTA RICA: EVOLUTION OF THE INDEXES OF THE EFFECTIVE NOMINAL AND REAL EXCHANGE RATES FOR EXPORTS AND IMPORTS^a

(1980 = 100)

Annual and quarterly averages	Index of effective nominal exchange rate for:		Index of effective real exchange rate for:			
	Exports	Imports	Exports		Imports	
	(1) ^b	(2) ^b	(3) ^c	(4) ^d	(5) ^c	(6) ^d
1970	70.7	74.6	117.4	80.4	117.2	80.3
1971	71.1	75.1	114.3	80.9	113.4	80.2
1972	72.0	76.7	115.7	82.5	114.3	81.5
1973	74.3	78.5	116.5	83.7	115.1	82.6
1974	89.4	93.1	118.0	91.1	117.4	90.6
1975	97.4	100.2	114.8	91.9	112.5	90.0
1976	96.5	98.1	111.6	94.3	109.4	92.5
1977	97.9	97.8	113.1	98.6	110.7	96.5
1978	100.6	102.6	114.5	101.5	114.1	101.2
1979	100.2	100.8	110.1	104.9	108.1	103.1
I	102.5	104.1	112.8	103.6	111.5	102.4
II	98.9	100.2	110.2	104.1	108.7	102.6
III	99.9	100.5	110.4	107.0	108.6	105.2
IV	100.6	99.2	107.2	104.9	104.1	101.9
1980	100.0	100.0	100.0	100.0	100.0	100.0
I	100.5	99.0	103.5	102.6	101.5	100.6
II	100.1	99.6	101.4	101.0	100.8	100.5
III	100.7	100.7	100.6	100.5	101.0	100.8
IV	98.8	101.0	95.2	96.3	97.4	98.5
1981	240.2	249.9	171.7	192.8	178.0	199.9
I	170.8	178.0	148.9	158.7	154.5	163.4
II	206.3	215.3	160.0	179.5	166.3	186.6
III	204.9	213.4	140.9	161.7	146.3	168.0
IV	378.8	391.4	224.0	257.1	230.7	264.9

Source: Statistical Appendix.

^aFor a detailed explanation of the methodology used, see the introduction to the Statistical Appendix.

^bThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the nominal exchange rate indexes and adding the products together to give the effective nominal exchange rate indexes.

^cThese indexes were obtained by multiplying the weightings for exports or imports (table 2) by the real exchange rate indexes (table 1A). The products were then added together to give the effective real exchange rate indexes. In calculating this index for Costa Rica, the wholesale price index was used.

^dA procedure similar to that described in note ^c was followed, except that table 1B and the consumer price index for Costa Rica were used.

¹⁸This was by far the biggest annual variation shown by the exchange rate in the history of the country. At the end of the nineteenth century, when the colón came into use, its value was set at 2.15 per U.S. dollar.

Figure 2
**COSTA RICA: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE
 INDEXES FOR EXPORTS AND IMPORTS**
(1980 = 100)

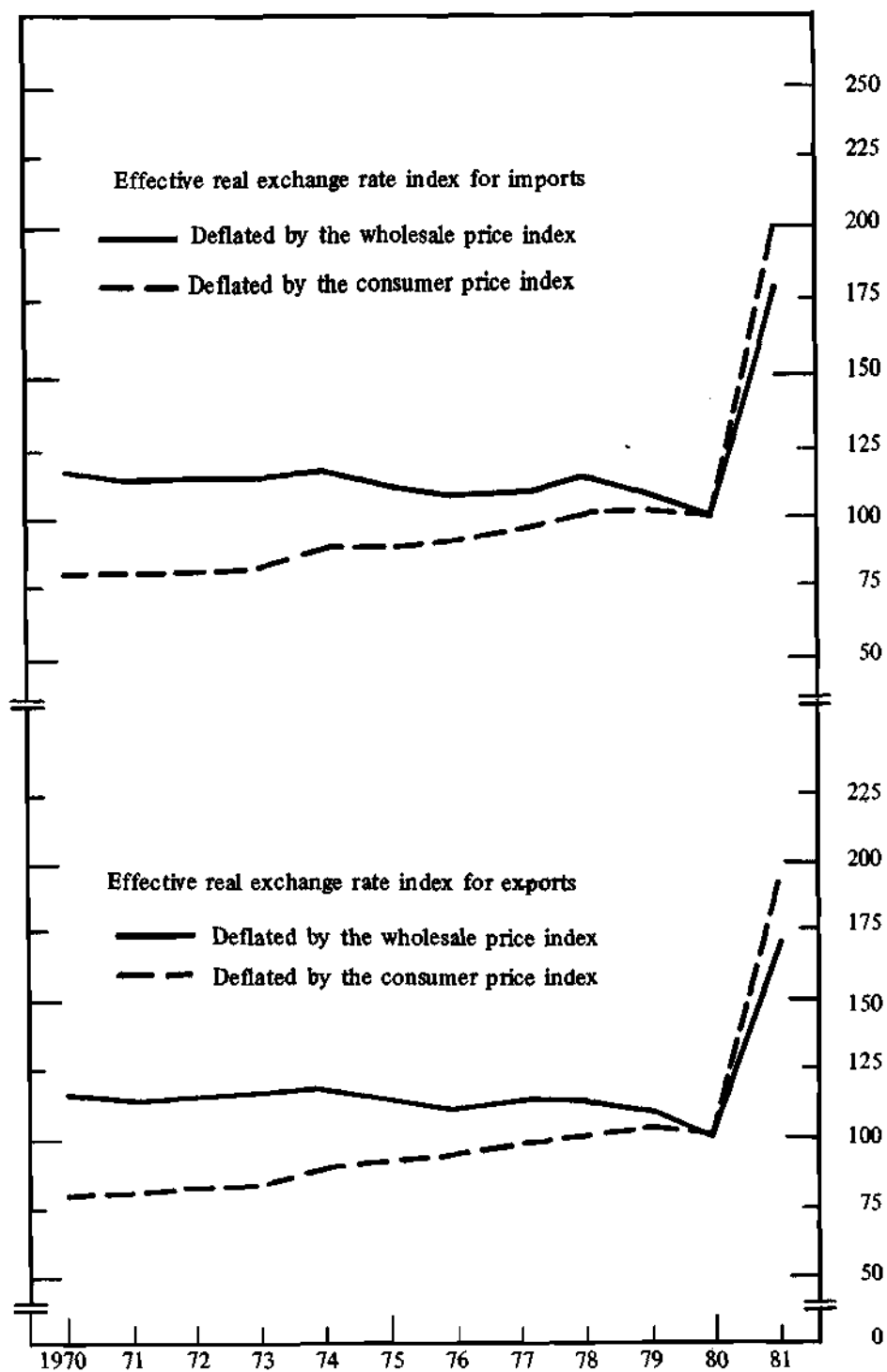
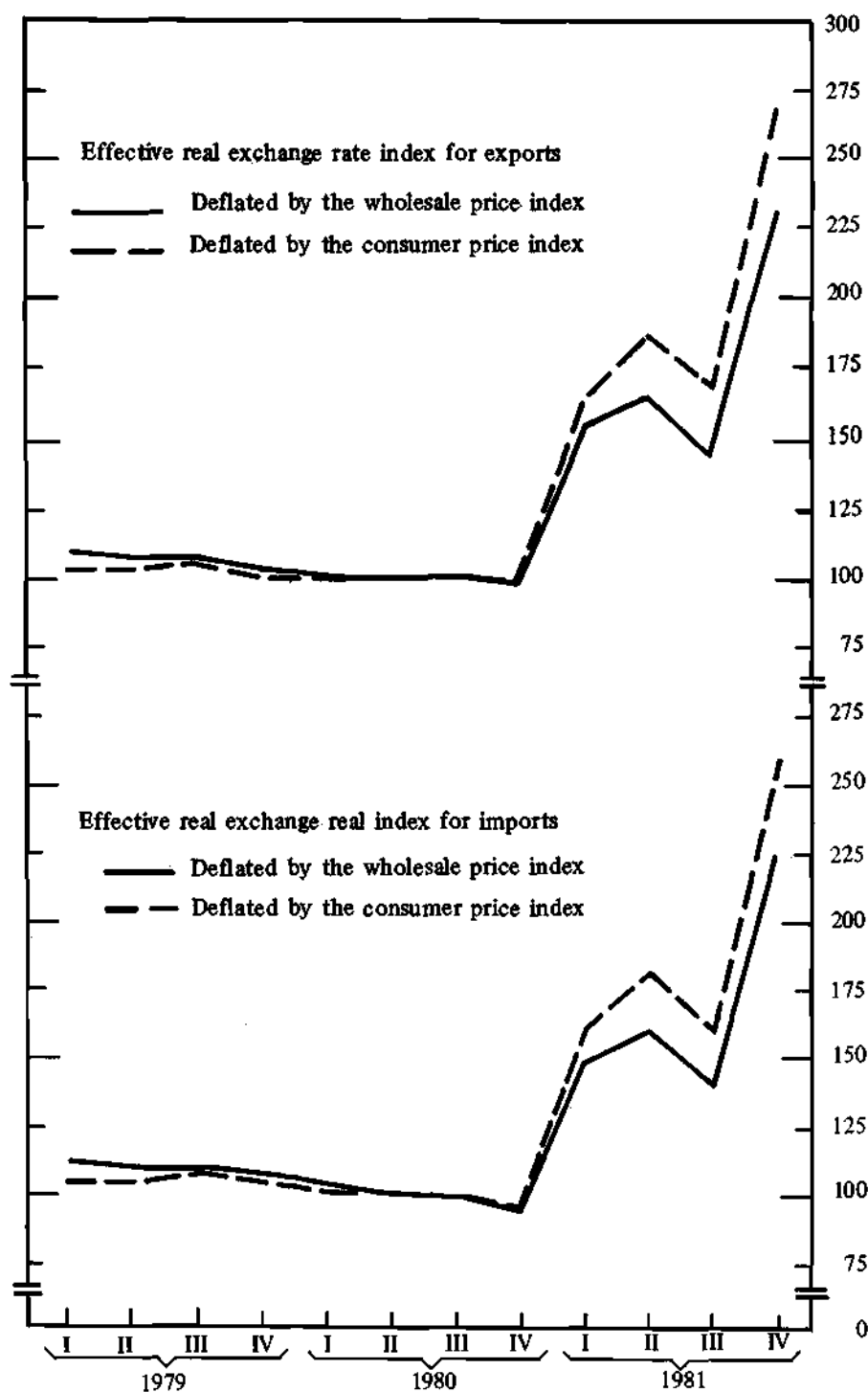


Figure 3
**COSTA RICA: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE
 INDEXES FOR EXPORTS AND IMPORTS**
(1980 = 100)



1981. The marked deterioration in the terms of trade largely nullified this result, however. This fact, together with the abrupt decline in the net availability of external financing, may go a long way towards explaining why the exchange rate rose more than would have been justified by the loss in competitiveness. It would appear that the remainder of the rise was attributable to the flight of domestic capital to the exterior.

This latter phenomenon was considerably influenced by the erratic management of the economic policy, exemplified by the aimless exchange policy. In the course of the year there were at least four different and changing exchange rates: the official rate, two Central Bank rates, and that of the parallel market. The official exchange rate became a matter of conflict between the various branches of the central government. In the middle of the year, the Supreme Court declared that the original decision to float the currency decreed by the Executive at the end of 1980 was illegal and ruled that such a decision lay in the purview of the Legislative Assembly. The subsequent debate on the issue in the Assembly dragged on until the end of November. Meanwhile, the Central Bank used two exchange rates which differed from both the official rate and the parallel market rate. Finally, on the latter market wild fluctuations in the exchange rate in a matter of hours became a common occurrence.

In November the Legislative Assembly finally agreed to devalue the colón officially, but to a figure only half that of the rate prevailing on the parallel market. The official rate was applied only to certain transactions, however, while for the rest the parallel market rate prevailed. The Central Bank, for its part, continued to operate on the basis of its own system. Thus, at the end of the year, the official exchange rate was fixed at 20 colones per dollar, the parallel market rate at 40, and the Central Bank rate at 35, the latter rate being applicable to all transactions except exports, which received a rate closer to that of the parallel market.

(c) *The terms of trade*

The stabilization of the international prices of hydrocarbons, together with the slackening of the inflationary processes in the industrialized countries, provided some relief after two consecutive years of high and growing imported inflation. Thus, in 1981 the price index for imported goods and services rose by 6% after rises of 13.6% in 1979 and 18.5% in 1980 (see table 11). However, not only did the declining value of the colón detract from this favourable trend, but it was far outweighed by the deterioration in export prices, which, for goods and services as a whole, fell by nearly 16%. As the result of these opposing movements, the terms of trade declined by nearly 21%. This was the fourth consecutive deterioration in this indicator and the largest yet recorded in the course of one year.¹⁹ In fact, in the whole postwar period, this index was lower on only one occasion (in 1974).²⁰ Since 1977 (when the terms of trade reached their highest level since 1957) this indicator has fallen by one-third. Consequently, what amounted to a gain equal to 4.6% of the expanding product in 1977 became a loss equal to 5.3% of the declining production of goods and services in 1981. In the same way, during the period 1972-1981 gross domestic income fell by 2% in spite of the fact that over the same period the gross domestic product rose by 8%.

At another level, the deterioration of relative prices in the external sector in 1981 thwarted the materialization of the benefits which would have resulted in normal circumstances from the sacrifice implied by the achievement of an increase of nearly 17% in gross domestic savings in spite of the drop in the product. One example of this was the nullification of the spectacular turn-

¹⁹ According to the official indexes prepared by CEPAL, which start with the year 1950, the index calculated on the basis of exports FOB and imports CIF showed a greater loss for 1974 and for 1981. According to another (non-official) index calculated on the basis of exports and imports FOB and prepared for a study on Costa Rica which is being conducted in CEPAL, the extent of the deterioration in 1981 had only previously been experienced in 1974, in the 1890s (when there was a sudden drop in the then unprecedentedly high price of coffee), and in the 1960s, when a severe inflationary process was set off in the international economy.

²⁰ The long-term index referred to in the preceding note indicates that it would be necessary to go back to 1940 to find a lower level.

Table 11
COSTA RICA: VALUE AND VOLUME OF EXPORTS AND IMPORTS OF GOODS AND SERVICES

(Annual growth rates)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Exports of goods FOB									
Value	23.7	27.7	12.0	20.1	39.7	4.4	9.0	8.0	1.4
Volume	2.8	10.9	-3.9	5.5	-2.1	7.1	0.1	-1.9	15.2
Unit value	20.2	15.1	16.6	13.8	42.7	-2.5	8.9	10.1	-12.0
Imports of goods									
Value	22.2	57.5	-3.3	10.9	33.0	13.4	19.8	9.4	-21.2
Volume	4.2	8.9	-4.9	11.4	26.5	7.0	4.8	-9.1	-25.3
Unit value	17.3	44.6	1.7	-0.5	5.2	6.0	14.3	20.4	5.5
Terms of trade (goods) FOB/CIF	3.3	-19.7	13.9	13.8	35.5	-8.0	-4.5	-7.5	-17.0
Exports of goods and services									
Value	21.4	28.7	11.4	18.2	36.1	5.1	8.9	8.8	-0.7
Volume	2.0	12.5	-3.3	5.5	0.5	6.4	-0.1	-2.2	17.9
Unit value	19.0	14.3	15.2	12.1	35.5	-1.3	9.0	11.3	-15.8
Imports of goods and services									
Value	19.9	55.4	-1.3	11.5	32.2	13.7	19.2	8.7	-21.9
Volume	3.8	10.6	-3.9	10.7	25.0	7.3	5.0	-8.3	-26.4
Unit value	15.5	40.5	2.7	0.8	5.7	6.0	13.6	18.5	6.2
Term of trade (goods and services)	3.0	-18.6	12.1	11.2	28.1	-6.8	-4.0	-6.1	-20.7

Source: ECLA, on the basis of official data.

Table 12
COSTA RICA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown ^a		Growth rates ^b		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	865	934	1 017	1 031	100.0	100.0	8.0	8.9	1.3
Main traditional exports	576	616	564	611	73.5	59.3	6.9	-8.4	8.3
Coffee	314	315	246	241	31.6	23.4	0.6	-21.9	-2.0
Bananas	170	191	201	253	28.9	24.5	12.2	5.6	25.9
Cocoa	15	10	4	3	0.8	0.3	-35.6	-57.0	-33.3
Cattle and meat	61	83	72	71	7.8	6.9	34.3	-13.3	-1.4
Sugar	16	17	41	43	4.4	4.2	10.0	131.7	4.9
Main non-traditional exports	289	318	453	420	26.5	40.7	10.0	42.5	-7.3
To Central America	179	175	270	226	19.9	21.9	-1.8	54.3	-16.3
To the rest of the world	110	143	183	194	6.6	18.8	30.0	28.0	6.0
Industrial products	45	86	127	115	...	11.1	91.1	47.7	-9.4
Livestock and fishery products	65	57	56	79	...	7.7	-12.1	-1.8	41.1

Source: ECLA, on the basis of data supplied by the Central Bank of Costa Rica.

^aPreliminary figures.

^bThe percentage breakdown and the growth rates correspond to real, not rounded, figures.

about achieved in the balance of trade at constant prices, which improved from a deficit equivalent to 8.5% of the gross domestic product in 1980 to a surplus equivalent to 3% of the product in 1981. The deterioration in the terms of trade, however, turned the 1981 balance into a deficit equal to 1.8% of the gross domestic product.

(d) *Merchandise trade*

(i) *Exports.* The increase in the current value of exports was very small in 1981 (see table 12). Examination of the performance by commodity groups and by volumes and prices shows very uneven results. Within this picture, the results of the coffee trade were really dramatic in that the extraordinary rise of 30% in the volume exported was entirely outweighed by a further drastic decline in the price. Because of this, the current value of coffee exports fell in spite of the increase in volume. Taking advantage of the coffee stocks which had been accumulated in recent years when production was growing and prices declining was one of the ways still open for obtaining foreign exchange. After the significant real devaluation in the colón, this option was also very attractive to exporters, in spite of the drop in the international price. Thus, the exceptional rise in the volume of coffee sales abroad in 1981 largely reflected the virtual exhaustion of these stocks. Although, because of the adjustment in relative domestic prices, this effort resulted in extraordinary earnings for exporters, the drop in the international price nullified the potential benefit to the community as a whole.²¹ If it had not been for the liquidation of stocks, however, the scarcity of foreign exchange would have been even more severe.

The sharp drop in 1981 brought the price of coffee down to half the record level achieved in 1977, and the value of coffee exports fell by 26%. Nearly all the drop was concentrated in the last two years.²²

Banana prices, on the other hand, continued to move against the current, rising by 15% after an even bigger increase the preceding year. The latest rise, combined with the recovery of 9% in their volume, resulted in an increase of 26% in the value of banana exports, causing this fruit to replace coffee as the main export item. Thanks primarily to the favourable evolution of the price, since 1979 the value of external sales of bananas has compensated for close to 90% of the loss in value of coffee exports (see table 12).

The sharp rise in the value of sugar exports was also very welcome. In 1980, when their value more than doubled, this was mainly due to the big rise in the price of sugar on the international market. In 1981, on the other hand, the value of external sales grew by 5% in spite of the considerable drop in the price during the year.

Conversely, cocoa exports—which had already been declining—again fell notably in 1981 as a result of the drop of 30% in the price and the 6% decline in the volume exported.²³ As for the

²¹ In 1981 the average domestic price of exports rose by 202%, while the average rise in consumer prices was 37%. As from April, the Government took steps to tax a proportion of the unusually high gains of the export sector through a decree which made it obligatory for exporters to sell their foreign exchange earnings to the Central Bank at the exchange rate which the Bank applied to their transactions. At that time, this exchange rate was 20% lower than that prevailing on the parallel market (towards the end of the year, the bank rate was around 13% lower than the parallel market rate). However, in March these measures were repealed, and it was proposed to the Legislative Assembly that it raise the tax on the added value of exports from 1% to 6%. In August, exporters were again required to exchange their foreign currency earnings at the Central Bank rate. In December, the exchange rate law approved by the Legislative Assembly again modified the tax régime for exports. Thereafter traditional exports would be taxed by 15% of the difference between the old official exchange rate (8.6 colones per dollar) and the prevailing parallel market rate. The corresponding tax for non-traditional exports to the Central American Common Market was set at 4.5%. Other exports remained tax exempt.

²² The relative or real price of coffee was still 14% higher in 1981 than in the last year of the recession (1975), at the end of which it began to rise appreciably. However, a comparison with the prevailing situation prior to the rise in the price of petroleum shows that the relative price of coffee was 24% lower in 1981 than in 1973. The real price of coffee was two-thirds lower in 1981 than in the record year (1977).

²³ Part of this deterioration was compensated for by the success of the government programme to promote the export of processed cocoa.

value of exports of cattle and beef, it remained approximately the same as the preceding year, thanks to an increase in volume.

Altogether, the current value of traditional exports rose by somewhat more than 8%, thus returning to the level of two years before. On the other hand, non-traditional exports fell by 7% overall. This reduction was entirely attributable to the deterioration in the trade with the rest of Central America, where the demand for imports declined considerably. Non-traditional exports to Central America fell by 16% (see table 12), and in fact the drop in sales to Nicaragua alone was enough to produce this result. Moreover, the increase in non-traditional exports to the rest of the world seems surprisingly low (6%) in view of the fact that it was precisely in this category that a strong response to the devaluation of the colón might have been expected. In addition, non-traditional exports had expanded considerably in the two preceding years. Here too, however, the performance of international prices detracted from a fairly favourable performance with regard to the volume exported. In this respect, the best result was that achieved by fertilizers, physical sales of which abroad grew by 50%.

(ii) *Imports.* In 1981 there was a generalized decline in imports, in most cases by a very considerable amount. On average, the reduction amounted to nearly 21% at current values and to over 25% at constant prices. These results, which were at the same time both causes and effects of the economic contraction, are not surprising, however, in the light of the increase of 263% in the average domestic cost of imports.

The biggest drop occurred in imports of consumer goods, whose value fell by 38% (see table 13). Every item in this category showed a decrease of this order. In the case of durable goods, it was the second consecutive year in which the nominal value declined. The magnitude of the drop in external purchases of consumer goods was followed by that of imports of capital goods, which fell by close to 23%, following a similar decrease the preceding year. Finally, the value of imports of intermediate goods declined by 12%.

Table 13
COSTA RICA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	1 166	1 397	1 529	1 211	100.0	100.0	19.8	9.4	-20.8
From Central America	203	213	220	158	21.7	13.0	4.9	3.3	-28.2
From the rest of the world	963	1 184	1 309	1 053	78.3	87.0	22.9	10.6	-19.6
Consumer goods	279	333	389	240	28.2	19.8	19.4	16.8	-38.3
Non-durables	117	138	174	111	...	9.2	17.9	26.1	-36.2
Semi-durables	98	107	129	77	...	6.4	9.2	20.6	-40.3
Durables	64	88	86	52	...	4.3	37.5	-2.3	-39.5
Raw materials and intermediate goods	606	717	858	752	48.2	62.1	18.3	19.7	-12.4
For agriculture	62	79	90	82	44.6	6.8	27.4	13.9	-8.9
For industry	339	376	570	533		44.0	10.9	51.6	-6.5
Building materials	87	79	94	64		5.3	-9.2	19.0	-31.9
Fuels, lubricants and related products	118	183	104	73	3.6	6.0	-44.9	-43.2	-29.9
Capital goods	281	347	282	219	23.6	18.1	23.5	-18.7	-22.5
For agriculture	37	37	29	19	2.0	1.6	-	-21.6	-34.5
For telecommunications and the construction industry	166	232	197	160	16.0	13.2	39.8	-15.1	-18.8
Transport equipment	78	78	56	40	5.6	3.3	-	-28.2	-38.6

Source: ECLA, on the basis of data supplied by the Central Bank of Costa Rica.

^aPreliminary figures.

In the case of both intermediate goods and non-durable consumer goods, the data suggest that sizeable stocks were accumulated in 1980 in anticipation of the devaluation of the colón. If so, the contractions in these categories in 1981 were less significant than they appear. In this respect, imports of intermediate goods for industry provide a clear example, since their value was over 40% higher in 1981 than during the two preceding years. On the other hand, the considerable drop in imports of lubricants, fuels and related goods appears to be a positive development. In the past three years the value of these imports contracted by 60%, causing their share in total purchases abroad to fall from 13% in 1978 to 6% in 1981, thereby coming closer to the share they had prior to the first oil crisis. This result was due primarily to the entry into operation of the new hydroelectric power stations, although in 1981 the recession also had substantial influence.

In view of the severe shortage of foreign currency at the beginning of the third quarter, the Government prohibited imports of certain goods (for example, automobiles and capital goods for agriculture) and imposed a system of advance import licenses for other goods. The objectives were to curb the growing devaluation of the colón and to ensure an adequate supply of mass consumer goods. This system was abandoned at the end of October, however, because it turned out to be difficult to apply, as well as giving rise to legal problems and complicating the negotiations with the International Monetary Fund.

(e) *Trade in services*

As in the case of merchandise, the performances of volume and prices in the trade in non-factor services were likewise diametrically opposed, but even more so. While the volume of exports of such services grew by 29% and that of imports fell by 31%, the unit values of the former decreased by 35% on average and those of the latter rose by 10%. As a result, it was impossible to eliminate the deficit on this account, although it was reduced by half (see table 14). In this connection, it is interesting to note that whereas the substantial rise in the rate of exchange promoted the export of services—especially tourism, whose volume rose by 35%—, the net effect by comparison with the preceding year was negative. In the case of tourism, for example, the value of entries decreased by 12%. Had it not been for the devaluation, however, the drop could have been greater.

The considerable increment (42%) in the deficit on factor services (including private unilateral transfers) was another element which complicated enormously the efforts to strike a closer balance between expenditure and production. This larger deficit was due both to the expansion of the debt and to the rise in interest rates. When 1981 is compared with 1978 or 1979, however, the unprecedented real interest rates which have prevailed since the end of 1979 in the international financial markets are seen to have been the chief cause of the steady growth of that deficit. On the other hand, it must be borne in mind that some of the interest which became due during the year was not paid. If the debt had been serviced normally throughout the year, the factor services deficit would have nearly doubled and amounted to the equivalent of 6.8% of the gross domestic product, instead of the 4.9% it actually represented.

(f) *The current account position and its financing*

Thanks to the extraordinary increase in the volume exported and the effects of the unilateral moratorium on the servicing of the external debt, it proved possible to reduce the large current account deficit recorded the preceding year by 42% in spite of the substantial deterioration in the terms of trade (see table 14).²⁴ As a proportion of the product, the deficit was reduced from an average of 12% in 1979-1980 to 6.8% in 1981. If relative international prices had remained stable, either the deficit on current account could have been kept down to 1.5% of the gross domestic product or it might not have been deemed necessary to stop servicing the debt.

²⁴It should be noted in this connection that the unpaid interest amounted to US\$ 87 million.

Table 14

COSTA RICA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Exports of goods and services	277	281	343	416	535	596	705	960	1 009	1 099	1 196	1 187
Goods FOB	231	225	279	345	440	493	592	828	864	942	1 017	1 031
Services ^a	46	55	64	71	95	103	113	132	145	157	178	156
Transport and insurance	13	19	19	20	25	29	35	35	28	33	37	34
Travel	22	24	30	36	48	52	55	62	72	74	87	76
Imports of goods and services	343	388	415	497	773	763	851	1 124	1 278	1 524	1 656	1 294
Goods FOB	287	317	337	412	649	627	695	925	1 049	1 257	1 376	1 084
Services ^a	57	71	78	85	124	135	155	199	229	267	280	210
Transport and insurance	35	43	46	52	82	82	96	115	129	155	169	137
Travel	13	17	19	21	27	35	42	51	62	63	62	35
Merchandise balance	-56	-92	-58	-67	-209	-134	-103	-97	-186	-315	-359	-53
Trade balance	-66	-107	-72	-81	-237	-166	-146	-164	-269	-425	-460	-107
Profits and interest	-14	-15	-35	-38	-39	-61	-69	-77	-110	-146	-210	-290
Profits	-4	-3	-21	-21	-14	-24	-26	-18	-27	-17	-18	-15
Interest received	1	1	1	3	4	4	6	9	16	11	14	15
Interest paid	-11	-12	-15	-20	-29	-41	-49	-68	-100	-140	-205	-290
Unrequited private transfer payments	3	4	4	7	9	9	11	15	16	17	16	15
Balance on current account	-77	-118	-103	-112	-167	-218	-203	-226	-364	-554	-654	-382
Unrequited official transfer payments	3	4	3	-	1	-	2	-	1	-4	1	
Long-term capital	44	57	80	92	136	238	220	300	353	353	351	
Direct investment	26	22	26	38	46	69	63	62	47	42	12	
Portfolio investment	-	-	8	-	-	-	-	4	21	-	109	
Other long-term capital	18	35	47	55	90	169	157	234	285	311	230	
Official sector ^b	-	14	18	14	29	59	53	81	114	221	61	
Loans received	11	22	29	31	41	82	71	99	241	304	92	
Amortization payments	-9	-7	-9	-10	-10	-22	-15	-18	-120	-79	-25	
Commercial banks ^b	-	-2	3	13	3	18	27	37	-12	35	13	
Loans received	4	3	7	13	8	24	36	51	12	63	35	
Amortization payments	-4	-6	-7	-4	-5	-6	-9	-14	-23	-28	-22	
Other sectors	17	24	26	27	59	91	77	115	182	55	156	
Loans received	27	44	51	74	110	164	173	236	333	357	383	
Amortization payments	-10	-20	-26	-46	-51	-73	-96	-121	-151	-302	-227	
Basic balance	-30	-57	-20	-20	-130	20	18	74	-11	-205	-302	
Short-term capital	25	48	-8	-2	47	-67	56	64	88	6	360	
Official sector	2	2	9	-1	9	-22	7	4	57	2	292	
Commercial banks	-	-	2	5	-3	-	-1	5	2	6	32	
Other sectors	23	46	-19	-5	41	-45	50	55	29	-2	36	
Errors and omissions (net)	-11	19	39	40	50	32	-20	-27	-51	80	31	
Balance on capital account	61	128	114	130	235	203	258	337	391	435	743	
Global balance ^c	-15	10	11	18	-32	-14	55	111	27	-119	89	-51
Total variation in reserves ^c (- sign indicates an increase)	12	-13	-20	-16	33	17	-61	-110	-22	113	-33	51
Monetary gold	-	-	-	-	-	-	-	-	-	-	-	2
Special Drawing Rights	-	-	-4	-	2	-2	3	-5	3	-2	6	-
IMF reserve position	-4	6	-	-	-	-	-	-	-10	-	10	-
Foreign exchange assets	17	-19	-9	-8	4	-5	-50	-90	4	77	-43	14
Other assets	-1	-	-7	-9	4	11	-17	-12	-14	12	-5	-12
Use made of IMF credit	-	-	-	-	23	12	2	-2	-4	26	-1	46

Source: ECLA, on the basis of official data.

^aServices also include other official and private transactions, but not profits and interest.^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^cThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Nevertheless, it was not possible to mobilize enough external financing to meet the smaller domestic demand. On the contrary, with the failure of the agreement with the International Monetary Fund not only was Costa Rica's access to external financing closed but the international financial community decided to withdraw its investments from the country. In such a situation, which was without precedent except during the Great Depression, the country was faced with the alternative of reducing its volume of imports, and hence its level of economic activity, even more drastically or failing to meet its external obligations; and, as it had done in the Great Depression, it chose the latter course.

This decision made it possible to limit the reduction in the volume of imports to 18%, instead of the nearly 50% which might otherwise have proved necessary, and thus keep the drop in the level of economic activity within limits which were socially and politically acceptable in the short term. The US\$ 352 million in unpaid amortization and interest commitments financed nearly 28% of the volume of imports and came close to the total deficit on current account.

The rest of the deficit was financed primarily out of the sale of gold holdings, disbursements of loans already contracted, and short-term public indebtedness. The latter, which consisted mainly of purchases from the IMF prior to the suspension of the Extended Facility agreement, together with a small reduction in the gross reserves, meant a deterioration of another US\$ 50 million in the economy's net reserve position, bringing it down to US\$ 190 million.

(g) *The external debt*

The growth and stability achieved by the country between the end of the Second World War and the first petroleum crisis did not involve a very significant increase in the external debt, although its servicing expanded markedly by comparison with exports, having been very low to begin with.²⁵ Since the rise in the price of petroleum, however, and especially since the onset of the international recession in 1975, the growth of the external debt has been very rapid, whatever the method used to measure it. Thus, between 1975 and 1981 the gross disbursed public and private external debt quintupled, rising from US\$ 700 million to rather more than US\$ 3 560 million (see table 15 and figure 4). At constant prices, the external debt more than trebled,²⁶ rising from 25% to 63.5% as a percentage of the product when deflated by the import price index or from 36% to 128% when converted at the average prevailing exchange rate and expressed as a percentage of the gross domestic product at current prices. Using the latter method, but replacing the nominal rate of exchange with the real rate, a third result located between the two extremes is obtained (see table 9).

The servicing and amortization of the debt rose from a combined amount equivalent to 25% of exports of goods and services in 1975 to 50% in 1979, falling to 40% in 1980 but rising again —if all obligations had been met— to approximately 64% in 1981.

As happened in nearly all the rest of the region, there was an important change in the sources of financing, which resulted in a hardening of the terms on which the country could gain access to external savings. Equally or more important in this connection, however, was the concurrent rise in real rates of interest all over the world. Be that as it may, these two factors would have required not only greater efficiency in the utilization of external financing but also the allocation of a greater

²⁵For example, the disbursed external public debt, as a percentage of the gross domestic product, fell from 8.8% in 1950/1953 (central government only) to 7.5% in 1960/1963, rising to 13.0% in 1970/1973 (public sector plus State-guaranteed private debt). As regards the servicing and amortization of the debt as a percentage of exports, this rose from 0.4% in 1950/1953 to 8.4% in 1960/1963 and 15.9% in 1970/1973. See Costa Rica, Statistics and Census Bureau, *Anuario Estadístico*, various issues; World Bank, *Costa Rica: Current Economic Position and Prospects*, Washington, D.C., 1977 and 1980, and ECLA, on the basis of official data.

²⁶The result is rather similar when the index of import prices (3.16 times higher) or the export price index (3.3 times higher) are used to deflate the debt. However, if another method recently suggested by Rüdiger Dornbusch is adopted, the external debt is calculated to have increased 8.2 times between the end of 1975 and the end of 1981. This latter method consists in converting the external debt into domestic currency by using the operative exchange rate and deflating the result by the variation in the consumer price index. For a study of this old controversy, see R. Dornbusch, "Consumption opportunities and the real value of the external debt", *Journal of Development Economics*, (10), 1982.

Table 15

COSTA RICA: AMOUNT, SOURCES AND USE MADE OF THE EXTERNAL DEBT

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Millions of dollars									
Gross external debt ^a	457	570	700	1 149	1 455	1 822	2 241	3 025	3 564 ^b
Public	296	379	510	622	812	1 112	1 463	2 140	2 679 ^c
Private	161	191	190	527	643	710	775	885	...
Gross international reserves	51	45	49	95	190	194	119	146	131
Indexes									
At current prices	100.0	124.7	153.2	251.4	318.4	398.7	490.4	661.9	779.9
Deflated by prices of exports of goods and services	100.0	109.2	116.4	170.5	159.3	202.7	228.0	276.6	386.9
Deflated by prices of imports of goods and services	100.0	88.8	106.1	172.9	207.2	244.7	265.1	300.3	335.2
As a percentage of the GDP									
Nominal exchange rate ^d	29.9	34.3	35.8	37.5	41.4	45.3	46.8	63.1	128.0
Real exchange rate ^e	31.9	35.9	38.8	42.5	47.5	52.0	56.0	82.0	92.4
Deflated by prices of imports of goods and services	25.4	21.3	25.0	38.6	42.5	47.2	48.7	55.2	63.5
Percentages									
Debt servicing ^f									
GDP ^g	1.3	1.7	2.1	2.0	2.2	2.8	3.5	4.3	6.1
Exports of goods and services	19.2	17.8	23.8	24.0	23.0	39.0	50.0	40.1	...
Percentage breakdown									
Sources ^h									
Official lenders	...	...	...	58.5	53.9	51.8	43.7	40.1	...
International agencies	...	...	...	38.5	37.1	35.3	29.2	27.3	...
Governments	...	...	...	20.0	16.8	16.5	14.5	12.8	...
Private lenders	...	...	...	41.5	46.1	48.2	56.3	59.9	...
Commercial banks	...	...	...	30.3	35.8	36.4	44.2	48.6	...
Uses ⁱ									
Interest	16.9	18.2	15.2	17.5	17.6	17.1	19.3	40.1	...
Amortization	50.8	41.5	37.4	42.9	39.6	50.1	56.5	53.7	...
Investment	32.3	38.8	-	39.6	27.3	14.3	24.2	-	...
Consumption	-	1.5	52.6	-	15.5	13.8	-	6.1	...

Source: ECLA, on the basis of official data.

^aPublic and private disbursed.^bAs at 1 October. Projected on the basis of the growth of the public debt. Zero growth of the private debt has been assumed.^cAs at 1 October.^dColones per dollar.^eObtained from the balance of payments.^fInterest only. Nominal exchange rate, colones per dollar.^gInterest and amortization payments, excluding the amortization of short-term debt.^hRefers only to the medium- and long-term disbursed external public debt.ⁱOn the basis of annual flows recorded in the balance of payments. Short-term capital is excluded.

relative share of such financing to activities which generate or save foreign exchange, or, alternatively, increased effectiveness in its use, plus a change in the destination of any resources of domestic origin which might have been freed as a result of the importation of external resources. Unfortunately, neither of these sets of requirements was met.

Some of the statistics which point to this conclusion have already been discussed: the notable increase in the capital/product and the rapid growth in the percentage of exports of goods and services represented by the servicing of the debt. Instead of increasing, the efficiency of investment diminished appreciably and the volume of exports stagnated.

Finally, a relatively modest and decreasing share of the indebtedness in that period was allocated for purposes of increasing investment. Thus, between 1973 and 1980 only 22% was allocated to gross fixed investment (see table 15).²⁷ This was a result, on the one hand, of the sudden increase in debt servicing commitments and, on the other, of the steadily greater dependence of increased investment on external resources.

4. Prices and wages

(a) Prices

Although inflation accelerated slowly but surely from 1976 on, in 1981 it rose at unprecedented speed.²⁸ Between December 1980 and December 1981 the consumer price index rose by 65% while the wholesale index rose by 117%. The preceding year the rises had been about 17% and 19%, respectively. The variations between annual averages, for their part, stood considerably lower at 37% for consumer prices and 65% for wholesale prices, owing to the fact that inflation became more marked during the year and particularly during the final quarter (see table 16 and figure 5).

Table 16

COSTA RICA: INDICATORS OF INFLATION

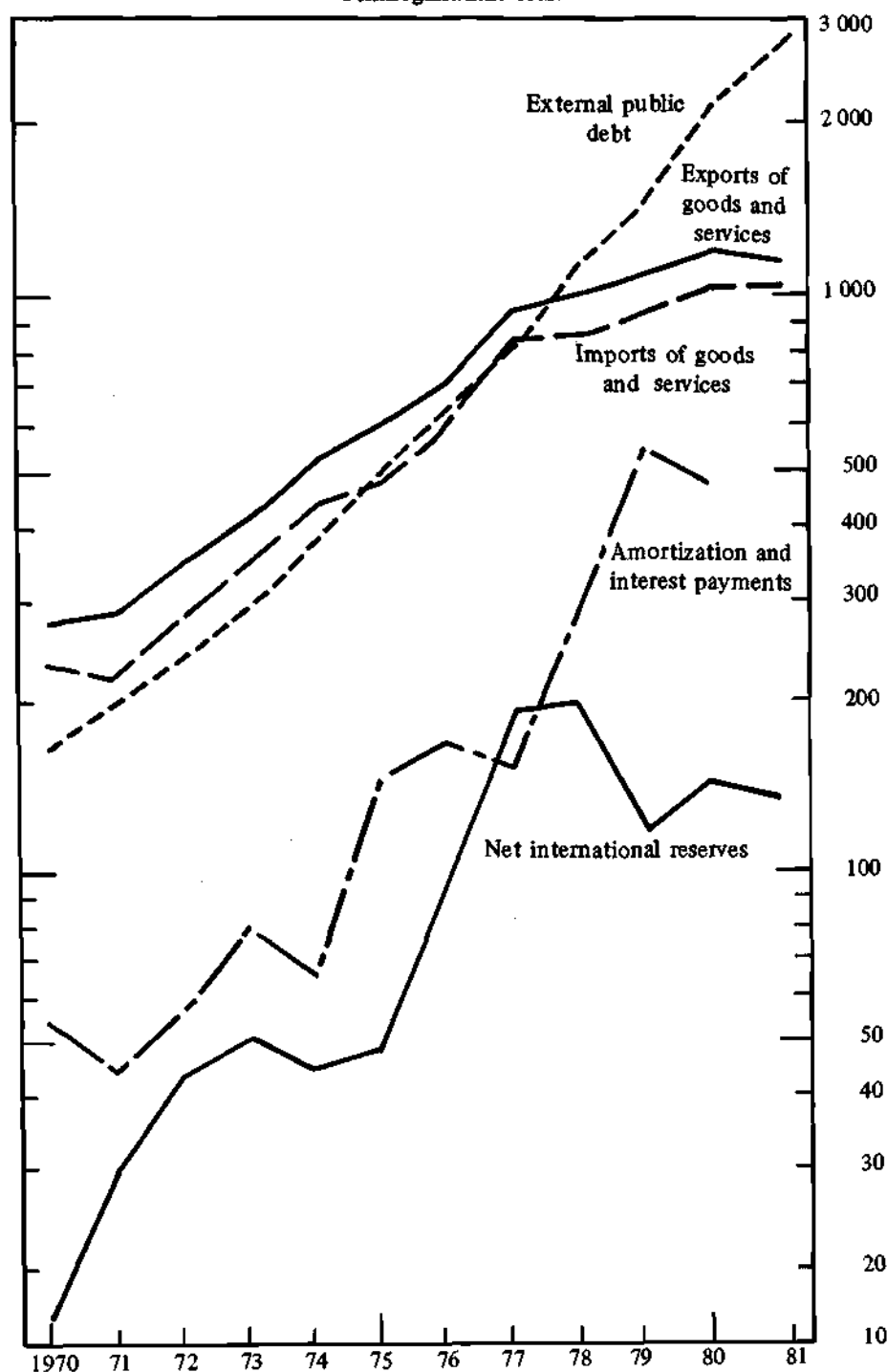
	1973	1974	1975	1976	1977	1978	1979	1980	1981
Index (1973 = 100)									
Consumer prices		130.1	152.7	158.1	164.7	174.6	190.6	225.1	308.5
Wholesale prices		139.8	170.0	185.8	199.7	215.3	250.0	309.2	510.9
GDP deflator:									
At market prices		123.2	151.5	178.9	209.2	225.8	246.4	291.8	445.2
At factor cost		121.7	151.5	177.1	205.8	221.3	244.5	290.8	443.7
Variation between annual averages									
Consumer prices	15.2	30.1	17.4	3.5	4.2	6.0	9.2	18.1	36.9
Wholesale prices	16.2	39.8	21.6	9.3	7.5	7.8	17.4	23.8	65.2
Variation from December to December									
Consumer prices	15.9	30.6	20.5	4.4	5.3	8.1	13.2	17.8	65.0
Wholesale prices	15.3	38.2	14.0	7.2	7.4	9.4	24.0	19.3	117.2

Source: ECLA, on the basis of official data supplied by the Central Bank of Costa Rica.

²⁷For the purposes of this illustrative calculation, it is assumed that interest and amortization payments have first priority in the use of the resources obtained through the new loans. If the calculation is based on net disbursements minus amortization payments rather than gross financing, the share allocated to investment would double, but so would the share allocated to consumption.

²⁸The first domestic price index dates back to 1936.

Figure 4
COSTA RICA: SOME EXTERNAL SECTOR INDICATORS
(Millions of dollars)
 Semilogarithmic scale



Source: ECLA, on the basis of official data.

The large discrepancy between the two price indexes in 1981 is worthy of note. As indicated in the preceding section, the consumer price index underestimates the real underlying inflation, whereas the wholesale price index does not suffer from this defect and seems to come closer to the true value. The deflator for the gross domestic product, for its part, tends to follow an intermediate path. In 1981, for example, a variation between annual averages of around 53% was recorded.

At all events, there can be no doubt that the immediate cause of the acute inflationary process which affected the country in 1981 was the rapid deterioration of the colon. The average rise of 150% in the effective nominal exchange rate for imports would alone have been enough to cause an increase of about 75% in the average level of domestic prices, given the share of imports in the domestic supply. With the increase in the external prices of imports, the total variation in the domestic cost of imports could have caused a rise of about 80% in domestic prices. Finally, if the rise in export prices in colones is also taken into consideration, the average level of domestic prices could have risen by over 125%, even if there had been no variation whatsoever in the prices of non-tradeable goods.

In the light of the marked rise in the prices of imports and exports in national currency, it was really noteworthy, if not surprising, that domestic inflation was not much more intense than it actually was. The big rise in relative domestic prices in 1981 seems to be related primarily to the performance of wages. Thus, the average unit wage costs (nominal wages and salaries adjusted by the gross productivity of labour) rose by barely 27% as against the rise of 149% in the exchange rate and the increase of 65% in wholesale prices. In actual fact, wages and salaries rose by less than 20%, but the product per person employed fell considerably (see table 17). In addition to relieving the pressure on costs, the much smaller relative growth of salaries and wages was an important factor in the drop in domestic demand, which also helped to attenuate the inflationary process.

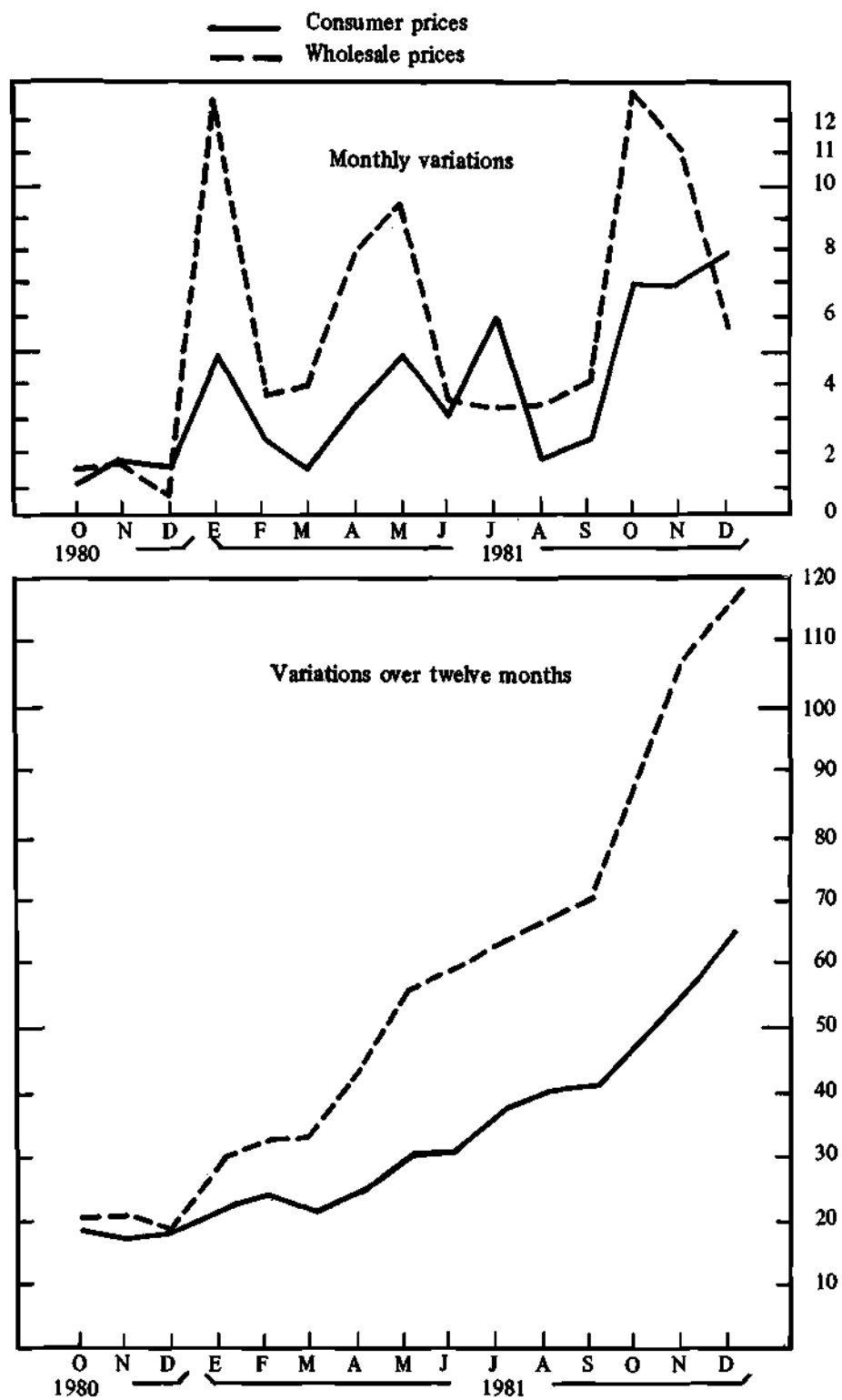
There were other factors which helped to offset or contain the inflationary pressures. These included notably the way in which credit developed and the application of price controls. All the monetary aggregates grew more slowly than inflation as measured by the wholesale price index. The expansion of credit, however, was drastically restricted, causing an abrupt reduction in its real availability by comparison with the nominal gross domestic product. Thus, after having increased very much faster than inflation and the growth of the nominal product in previous years, in 1981 total net domestic credit grew by 15% as compared with the variations of 117% in the wholesale price index and 47% in the gross domestic product at current prices.²⁹ The expansion of credit to the private sector was even more limited (see table 17). As a result, in the second half of the year there was an acute credit squeeze which forced many undertakings to liquidate their inventories and even led to decapitalization. In these circumstances, it became difficult to give full effect to or sustain the price increases to which the inflationary impetus from the external sector would otherwise have given rise. At the same time, this counter-pressure on price levels was undoubtedly an important factor in the restriction on wage rises.

With regard to price controls and subsidies, their impact may be inferred from the uneven performance of the two price indexes. In 1981 the Government agreed with the IMF to undertake liberalization measures in the field of prices and subsidies.³⁰ In particular, it was agreed that the State enterprises would follow a price policy which would reflect their production costs. Consequently, many of the public service rates were raised and some of them (including those regarding energy and fuels) were raised considerably. Towards the middle of the year, however, the Legislative Assembly voted to freeze the prices of energy sources—a measure which, although it had a perceptible impact on the general level of prices, aggravated the already precarious

²⁹The variations of the monetary aggregates run from December to December. Thus, to measure their real variation, it is necessary to use the corresponding variation in the price index.

³⁰In the 1970s an extensive and complex system of controls, quotas and subsidies was created as part of the effort to combat inflation. In 1978, for example, there were some 2 000 products subject to price controls. In the same year, the new administration started a campaign to dismantle the system, with the result that by the end of 1979 the number of products subject to control was reduced to about 300. However, the system of controls was extended again when inflation began to worsen.

Figure 5
COSTA RICA: EVOLUTION OF PRICES



financial position of the public sector and was another factor behind the suspension of the Extended Facility agreement.

While it is true that the devaluation of the colón in 1981 unleashed a rapid process of inflation, the factors responsible for this must be borne in mind. In this respect, consideration has already been given to the roles played by the causes of the increasingly undervalued exchange rate; the deterioration in the terms of trade and the rise in international interest rates; the loss of access to the international financial market, and the flight of domestic wealth. Two other determining factors were the unusually large deficit in the public finances and an excessive expansion of the money supply. Thus, in 1979 and 1980 the deficits in the public finances amounted to the equivalent of 7% and 9.5% of the gross domestic product, respectively, so that it was necessary to expand the domestic credit to the public sector by 174% in those two years. This was reflected in marked pressures on the exchange rate, because of the impact both on the balance-of-payments current account and the level of domestic prices. In addition such a large increase in the allocation of credit to the public sector could be expected to force a sharp drop in the amount of credit channeled to the private sector and, hence, in the level of activity. Instead of resolving the dilemma in this way, however, it was decided, as in previous years, to increase the amount of credit to the private sector also, thus raising the deficit on current account and increasing the pressure on price levels (see table 17).

Table 17

**COSTA RICA: EVOLUTION OF SELECTED VARIABLES IN THE
EXTERNAL, LABOUR AND MONETARY MARKETS**

(Index 1973 = 100)

	1974	1975	1976	1977	1978	1979	1980	1981
External market								
Domestic prices of imports	166.8	184.3	181.8	191.4	212.9	237.5	279.3	738.3
External prices of imports	140.6	144.3	145.4	153.7	162.9	185.0	219.2	236.7
Effective nominal exchange rate for imports	118.6	127.7	125.0	124.5	130.7	128.4	127.4	317.2
Domestic prices of exports	137.5	172.5	191.0	263.5	267.3	290.2	322.2	651.8
External prices of exports	114.3	131.6	147.5	199.9	197.4	215.1	239.4	201.6
Index effective nominal exchange rate for exports	120.3	131.1	129.9	131.8	135.4	134.9	134.6	323.3
Labour market								
Labour force	...	...	114.1	119.2	126.0	127.9	133.2	140.3
Employment	...	...	116.9	122.6	129.7	132.4	136.1	138.8
Productivity	...	...	99.9	103.6	104.2	107.2	104.7	98.7
Nominal wages and salaries	117.5	141.1	163.1	186.0	214.4	245.3	281.4	336.5 ^a
Domestic wage costs	...	...	163.2	179.5	205.8	228.8	268.8	340.9 ^a
Monetary market^b								
M ₁	119.2	147.9	192.8	239.8	297.4	328.3	384.2	632.1
M ₂	133.0	183.4	253.0	321.3	407.9	542.3	629.6	1 199.4
Monetary base	114.1	152.3	204.3	298.1	296.9	457.1	545.7	1 435.7
External assets (net)	27.0	41.0	143.1	332.7	284.9	107.0	-111.0	-1 186.5
Domestic credit	144.0	196.7	237.7	297.3	382.4	530.2	650.4	744.1
Public sector (net)	145.7	257.3	320.2	513.0	725.5	1 395.5	1 986.6	2 417.1
Private sector	142.5	190.6	229.8	269.7	334.1	395.2	444.7	481.1
M ₁ /monetary weight	100.0	104.9	97.3	80.4	100.5	71.7	70.7	48.3
GDP/M ₁	109.1	111.7	104.0	108.2	100.0	103.6	105.4	94.4

Source: ECLA, on the basis of official data.

^aProjected for 1981 on the basis of data for the first half of 1981.

^bProjected for 1981 on the basis of data for the period January/November 1981.

(b) *Wages and salaries*

In 1981, as in the preceding year, the nominal rise in wages and salaries was not high enough to compensate for the inflation. Indeed, there was a sharp and widespread decline in real wages and salaries throughout the economy. Thus, following the 3% drop recorded in 1980, the index of wages and salaries fell by nearly 13% in 1981, if the consumer price index is used to deflate the nominal movements.³¹ On the other hand, if the wholesale price index is used for this purpose, the reductions amount to 7% in 1980 and to nearly 28% in 1981³² (see table 18).

As in 1980, it was public sector manual and non-manual workers who suffered the greatest losses, the size of the decline in central government wages and salaries being particularly notable in that it came close to 18% for the second year running, so that in real terms remunerations dropped below their 1973 level. As regards the staff of independent institutions, their real wages and salaries dropped by 13% on average, after the drop of somewhat over 1% recorded the preceding year, and thus returned to the level at which they had stood four years previously. The decline in private sector wages and salaries, for their part, came to more than 9%, bringing them too back to their 1977 level.

There is usually a lag in real wages and salaries when inflation accelerates, especially in an economy with no inflationary tradition, as is the case of Costa Rica. The intensity with which inflation progressed in 1981 would be enough on its own to explain the appreciable decline in real wages and salaries. Two further factors also exerted an influence, however: the fiscal crisis and the decline in the level of activity, with doubling of the rate of unemployment.

When the performance of wages in the period before the beginning of the economic crisis is examined, real wages and salaries are seen to have developed very similarly to the gross national income, except in 1974, when they dropped sharply at a time when the income rose slightly. Thus, between 1974 and 1979 the indexes of real wages and salaries of the private sector and the public

Table 18
COSTA RICA: EVOLUTION OF WAGES AND SALARIES

	(1973 = 100)							
	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Nominal wages and salaries								
Total	117.5	141.1	163.1	186.0	214.4	245.3	281.4	336.5
Private sector	118.8	140.7	161.2	185.1	212.4	243.7	283.4	343.8
Public sector	115.8	141.7	165.2	187.4	217.6	243.3	266.2	310.9
Central government	116.0	142.0	171.1	197.4	230.8	253.4	250.1	284.9
Autonomous agencies	115.3	141.2	160.2	179.4	207.2	239.3	279.5	334.0
Real wages and salaries^b								
Total	90.3	92.4	103.1	112.9	122.8	128.7	125.0	109.1
Private sector	91.1	92.1	102.0	112.4	121.6	127.8	125.9	114.1
Public sector	89.0	92.7	104.5	113.8	124.6	127.6	118.3	100.7
Central government	89.2	93.0	108.2	119.9	132.2	132.9	111.1	92.2
Autonomous agencies	88.6	92.5	101.3	108.9	118.7	125.6	124.2	108.3

Source: ECLA, on the basis of data supplied by the Ministry of Labour and Social Security.

^aPreliminary figures. The evolution for 1981 was projected on the basis of data for the first half of the year.

^bThe nominal salaries and wages were deflated by the consumer price index.

³¹The figures for 1981 have been projected on the basis of data for the first half of the year. Since inflation accelerated throughout the year, it is likely that the drop in real wages and salaries was even greater.

³²Although the wholesale price index may be a better indicator of the underlying inflation, the consumer price index probably better reflects the situation as regards the basket of goods of wage earners. In addition, the real movement shown over the past decade by wages and salaries, when they are deflated by the wholesale price index, is not consistent with the real pattern of consumption in that period. For that reason, only the real variations which result from the application of consumer prices will be given in the remainder of this text.

sector rose by 40% and 43%, respectively, while the gross national income expanded by 40%. A marked discrepancy is to be observed, however, when the gross national income is adjusted by the increase in employment. When this is done, it is seen that the income per person employed grew by only 11.6% in that period, while the product per person employed increased by only 4.1%. Even when the considerable reduction in real wages and salaries in 1974 is taken into account, a very appreciable imbalance is observed between the growth of real wages and salaries and that of the product and income per person employed.³³ In practice, this resulted in greater external indebtedness rather than in a redistribution of the income in favour of wage earners. Among other things, the economic crisis virtually restored the relationship which existed between these variables prior to the first oil crisis, since the income per person employed in 1981 was 6% higher than in 1973, while the index of real wages and salaries was 9% higher.

5. Fiscal and monetary policy

(a) *Introduction: fiscal and monetary policy and the evolution of the economic crisis*

Throughout the 1970s, the public sector followed in practice a policy of increasing its material and administrative responsibilities in the economy systematically without having been endowed with the legal and material resources needed to do so. This contradiction was a decisive factor in shaping the economic crisis, since not only did it considerably increase the imbalance between what the economy spent and what it produced, but also even came to the point of compromising the central government's very ability to formulate and execute in a timely manner the macroeconomic policies dictated by the course of events. At all events, there can be no doubt that instead of an effort being made to prevent the imbalances from reaching unacceptable dimensions, it was these very imbalances which dictated —at very high cost— the macroeconomic policies needed to reorient the economy.

Between 1970 and 1980, the total expenditure (less amortization of the debt) of the consolidated non-financial public sector showed an average yearly growth of 26% in current terms and nearly 11% in real terms. As a result, this expenditure rose from an equivalent of over 25% of the gross domestic product in 1970 to nearly 41% in 1980. As for total income, this too grew more rapidly than the gross domestic product but much more slowly than expenditure, rising from the equivalent of 24% of the gross domestic product in 1970 to the equivalent of 31% in 1980 (see table 19). From 1975 on, the total income barely grew at all in relation to the product, while between 1977 and 1980 expenditure increased by 7 percentage points. As from 1979, current income was no longer sufficient to cover current expenditure, and in that year the global deficit rose to the unprecedented figure of 7% of the gross domestic product in net terms and 11% in gross terms. In 1980 negative savings came close to 2% of the gross domestic product, and the global balance amounted to 9.5% in net terms and 12.6% in gross terms.³⁴

Because of its reluctance to raise taxes and tariffs, from 1976 on the public sector had to mobilize large amounts of domestic and external bank financing to meet its expenditure commitments. In 1979 and 1980, the new credits absorbed by the central government, the independent institutions and the non-financial State enterprises totalled close to 10% of the product (see table 19). Between 1975 and 1980, the total domestic credit utilized by the public sector grew at an average annual rate of 45.5%, thereby rising from an amount equivalent to 6.4% of the gross domestic product in the former year to the equivalent of 21% of the product in the latter (see table 20).

For the decade as a whole, the growth rates of current and capital expenditure were very similar, although they varied greatly at different times during the period. With regard to current

³³It is important to bear in mind that this analysis is based on the use of the consumer price index to deflate wages and salaries. If the wholesale price index were used, the imbalance would be of opposite sign.

³⁴The gross global balance includes the amortization of the debt as a capital expenditure, whereas the net global balance excludes it as such (see table 19).

expenditure, the expansion of wage and salary costs was the most notable feature, but interest payments also expanded very rapidly. In this connection special mention should be made of the increase in public employment, which grew at an average annual rate of 13% during the period 1973-1979, so that the total number of public employees more than doubled.

From the institutional point of view, it was the State enterprises which were primarily responsible for the growth in expenditure, followed by the independent institutions, the central government and the municipal governments. Taken together, the enterprises increased their expenditure at a real average annual rate of nearly 15%, the independent institutions increased theirs at an annual rate of around 13%, and the central government, at a rate of 8%. The municipalities did not increase their expenditure in real terms.

The cause of the boom in public expenditure and the gap between it and the income seems to lie, in the final analysis, in the constitutional and legal mandates which have implicitly, if not explicitly, dispersed the responsibility for the management of economic policy over the various components of the public sector and even among the different ministries of the central government. The most outstanding example of this institutional trend was in fact provided by the budgetary process, since up until very recently there was no consolidated budget for the public sector as a whole: instead, the majority of the independent institutions and all the State enterprises prepared their respective budgets separately, as did the central government. There was not even any *ex-post* accounting of the set of individual budgets. The central government itself prepared "ordinary" and "extraordinary" budgets for its operations, while at the same time engaging in considerable extra-budgetary expenditure. In addition, while one ministry was given responsibility for preparing the budgets, another was made responsible for their execution and control. As a recent study pointed out, the simple fact is that no one in Costa Rica knew how much the public sector planned to spend in a given period nor where the expenditure would be channelled.³⁵

Table 19

**COSTA RICA: OPERATIONS OF THE CONSOLIDATED
NON-FINANCIAL PUBLIC SECTOR**

(As percentages of the GDP)^a

	1970	1975	1976	1977	1978	1979	1980 ^b	1981 ^b
Current income	26.4	30.4	30.0	29.7	31.6	35.5	34.9	...
Current expenditure	22.9	28.3	26.9	26.0	30.4	36.9	37.5	...
Savings	3.6	2.1	3.1	3.6	1.2	-1.4	-2.7	-4.0
Capital expenditure	5.0	7.8	7.9	9.6	9.7	10.3	11.2	...
Total expenditure	27.8	36.1	34.8	35.6	40.1	47.2	48.8	...
Global balance ^c	-1.0	-5.3	-4.5	-5.9	-9.0	-11.9	-13.9	-14.0
Net domestic financing	-0.6	3.2	1.5	4.7	4.0	6.5	7.8	4.1
Banking system	...	...	...	...	2.8	8.3	5.8	3.2
Other	...	...	...	...	1.2	-1.8	2.0	0.9
Net external financing	1.5	2.8	3.9	3.3	6.1	5.2	4.7	10.9 ^d
Variation of balances ^e	-	-0.7	-0.9	-2.1	-1.1	0.2	1.3	-1.1

Source: ECLA, on the basis of data supplied by the Office of the Controller-General of the Republic, Ministry of Finance, Central Bank, Budgetary Authority, International Monetary Fund and World Bank.

^a At current market prices.

^b Preliminary figures.

^c Includes capital inflows.

^d Includes arrears of interest.

^e Includes discrepancies in statistics.

³⁵ World Bank, *Costa Rica: Current Economic Position and Prospects*, Washington, D.C., 3 November 1980, p. 18. This study examines the problem in detail.

Table 20

COSTA RICA: DESTINATION, ORIGIN AND FINANCING OF CREDIT

	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
As a percentage of the GDP									
Total credit	31.8	35.2	37.8	37.1	36.5	40.9	49.5	51.0	40.0
To the public sector	4.3	4.9	6.4	6.8	8.6	10.6	17.8	21.2	17.6
To the private sector	27.5	30.3	31.4	30.3	27.9	30.3	31.8	29.8	22.4
From the Central Bank	7.4	10.5	10.3	9.6	11.0	13.0	21.9	25.3	13.0
From commercial banks	20.6	22.1	25.0	25.1	23.3	25.9	25.8	23.9	25.9
From other financial institutions	3.8	2.6	2.5	2.4	2.2	2.0	1.8	1.8	1.1
Liabilities to the private sector	33.0	32.2	33.1	33.6	34.9	38.0	40.4	38.5	56.1
Currency outside banks	6.3	5.6	5.1	5.4	5.4	5.6	5.7	5.5	5.8
Sight deposits	13.6	12.6	12.7	13.4	13.0	14.3	13.5	13.4	15.2
Time and savings deposits	8.2	10.5	13.3	16.1	16.4	18.6	25.6	24.8	35.1
As a percentage of the corresponding GDP									
Credit to the public sector	21.2	23.7	29.8	30.3	39.2	45.0	72.3	84.3	...
Credit to the private sector	32.1	35.2	37.5	37.2	34.0	37.6	39.3	37.8	...

Source: ECLA, on the basis of official data; IMF, International financial statistics.

^aProjected to the end of the year on the basis of the growth rate between November 1980 and November 1981.

In addition, there were the rigidities and the expansionary philosophy generated by the system of compulsory expenditures and the related practice of allocating fixed percentages of taxes for specific ends and uses. Both of these are traditional features deriving from the country's Constitution.

The gap between the income and expenditure of the public sector, in its turn, created a new series of difficult dilemmas for the economy and the economic policy. In view of its magnitude, it threatened to set off an intense inflationary process at the global supply and demand level unless either the external debt was considerably increased or private demand drastically reduced. In the labour market, it meant either embarking on a path of global overemployment or labour shortages within specific sectors and occupations, or having recourse to more foreign labour; in addition, it signalled the danger of wage inflation unless an incomes policy were established. In the goods market, it involved the need to increase the deficit on current account and, at the same time, the level of external indebtedness, or else the need to induce the private sector to reduce the gap between savings and investment, unless a system for the administrative rationing of goods were introduced in order to avoid running the risk of a sustained rise in the level of prices. In the monetary market, it meant restricting the availability of credit to the private sector or expanding the global supply of credit excessively. Finally, in the foreign exchange market, it made it necessary either to allow the external price of the colón to fluctuate or to alter the domestic level of prices while maintaining the existing exchange rate. Otherwise, there was a risk of abrupt and unprogrammed fluctuations in the latter.

In practice, no clear or consistent line of economic policy was pursued in the face of the crucial situation at which the economy had arrived: instead events were allowed to take their own course. Thus, in actual fact, private demand also was allowed to expand more or less freely, since no restrictions were put on income nor on the availability of credit for the private sector, regardless of whether it was of domestic or foreign origin. In the period 1975-1979, when most of the deterioration in the financial situation of the public sector occurred, the real wages and salaries of the private sector rose just as much as, and even slightly more than, those of the public sector (8.5% compared with 8.3% per annum),³⁶ and although the growth rate of domestic credit to the private sector was much lower than that to the public sector, it nevertheless came to 7% annually

³⁶However, the growth rate of employment in the private sector was barely a quarter of that in the public sector.

in real terms and was enough to keep unchanged the ratio between the domestic supply of credit to the private sector and the gross domestic product (see table 20). In addition, private indebtedness with the exterior grew by nearly 34% a year at constant prices during the period. These trends in the labour and monetary markets resulted in a real expansion of 9% a year in private expenditure: a rate not much lower than that of 10.3% a year recorded in public expenditure.

The vigorous increase in domestic demand was accompanied by a reduction in the traditional figure of 7% of unemployment to one of less than 3% towards the end of 1979 and an expansion in the deficit on current account to the very high figure of 12% of the product in the same year. Simultaneously, the external debt showed intensive growth, while the gross international reserves fell below the equivalent of one month's imports. Concomitantly, inflation (as measured by the consumer price index) accelerated from 3.5% in 1976 to over 9% in 1979 (and to 18% in 1980).³⁷

In spite of the substantial gap in Costa Rica's external accounts, the virtual exhaustion of its international reserves and the intensification of its domestic inflation in comparison with that in its main trading partners, it was decided not to modify the exchange policy. Moreover, the administration which came into office in 1978 reduced a number of customs tariffs and other barriers to imports. In the prevailing circumstances and in the absence of any complementary measures, this reform, like the liberalization of many price controls, tended to aggravate rather than improve the situation. On the other hand, the payment of more competitive interest rates had a perceptible effect on private savings which partly outweighed the effects on the current account balance caused by the increase in the fiscal deficit and the acceleration of the issue of currency.³⁸

It was not until early in 1980 that the Government took the decision to tackle the by then critical situation of the economy with a stabilization plan. This plan, backed up by a stand-by arrangement for 60 million SDR units with the International Monetary Fund, aimed to curb the growth in domestic demand during the next two years and reduce the external gap, especially by effecting a sizeable reduction in the fiscal deficit. Not only was the option of modifying the exchange policy rejected, but the stabilization plan was even justified as being necessary in order to maintain the prevailing exchange rate. The specific measures included a rise in various indirect taxes and increases in the prices of energy sources. In addition, the Executive submitted a tax reform bill to the Legislative Assembly.

On the expenditure side, a flat reduction of 10% in the budgets of nearly all the divisions of the public sector was proposed. In addition, in what amounted to a big step forward, a decree was promulgated setting up a Budgetary Authority responsible for approving or rejecting the budgets of all public sector entities and preparing and supervising a consolidated budget for the whole sector. Finally, restrictions were laid down in respect of the granting of credits to the public sector and the total growth of credit.

The stabilization programme was a failure mainly because it did not succeed in reducing the deficit in public finances, which even increased as a percentage of the gross domestic product. Although domestic demand was not only curbed but even reduced, no improvement in the precarious external situation was achieved, while inflation got worse and towards the end of the year the Government was forced by events to give formal recognition to the rise in the exchange rate.

After protracted negotiations, in May 1981 a new and broader agreement was reached with the Monetary Fund in support of a more rigorous stabilization programme. However, various policies contained in the new stabilization programme agreed to with the Fund had actually been in application since the end of 1980. One of the most important of these was precisely the modification of the exchange policy. Another was the reorganization of public finances through the application of severe restrictions on expenditure and tax reforms.

³⁷In 1980 it came to 24% when measured on the basis of the wholesale price index.

³⁸Between 1975 and 1979, the financial savings (time and savings deposits) of the private sector grew from the equivalent of 13.3% of the gross domestic product to the equivalent of nearly 26% (see table 20). As for the deficit of the private sector (the difference between its investment and savings), it fell from 6% to 3% of the gross domestic product.

(b) *Fiscal policy*

In 1981 the financial situation of the public sector improved considerably, owing primarily to the great progress made in redressing the precarious state of the central government finances. Thus, in its budgetary transactions the central government showed a surplus on current account for the first time in four years and reduced its global deficit by nearly 60% so that it was equivalent to only 2.2% of the gross domestic product, compared with 7.9% the previous year. This improvement made it possible, among other things, to reduce the Government's absorption of domestic credit by a similar amount.

This result reflected both a vigorous increase in income and strict containment of expenditure. Current income rose by nearly 42%, coming close to the goal fixed in the budget adopted in December of the preceding year (see table 21). This growth was due partly to the sharp rise in the level of prices during the year. It was, however, the modifications made in export taxes—measures complementing the revision of the exchange policy—which did most to increase revenue. The returns from export taxes amounted to double the amount estimated in the budget and were more than three times the amount collected the preceding year, representing 25% of current income in 1981 as opposed to less than 11% the previous year. Substantial increases were also generated by the rises in the selective taxes on consumption, which were introduced the preceding year when the Legislative Assembly was still debating the tariff reform. On the other hand, the drop in the level of activity and, in particular, in the volume of imports had a negative effect on the performance of tax receipts.³⁹ Finally, it should be noted that even though current income showed considerable growth, this was less than the rise in the gross domestic product at current prices.

Table 21
COSTA RICA: OPERATIONS OF THE CENTRAL GOVERNMENT^a

	Millions of colones					Growth rates				
	1978	1979	1980	1981 ^b	1981 ^c	1978	1979	1980	1981 ^b	1981 ^c
Current income	4 026	4 239	4 982	7 696	7 292	14.0	5.3	17.5	54.5	46.4
Tax revenue	3 935	4 126	4 692	7 182	6 933	15.2	4.9	13.7	53.1	47.8
Direct	1 060	1 066	1 080	1 640	1 555	24.8	0.6	1.3	51.9	44.0
Indirect	2 875	3 060	3 612	5 542	5 378	12.0	6.4	18.0	53.4	48.9
Non-tax revenue	91	103	290	514	359	589.4	13.2	181.5	77.2	23.8
Current expenditure	4 276	5 152	6 349	7 704	8 168	21.9	20.5	23.2	21.3	28.7
Savings	-250	-913	-1 367	-8	-876		265.2	49.7	-99.4	-12.5
Capital expenditure	1 208	1 477	1 930	1 772	2 113	34.9	22.2	30.6	-9.2	9.5
Total expenditure	5 484	6 629	8 279	9 476	10 281	24.6	20.8	24.9	14.5	24.2
Global balance	-1 458	-2 390	-3 297	-1 780	-2 989	70.7	63.9	37.9	-46.0	-9.3
Domestic financing	646	1 725	2 838	1 530	2 028	17.8	167.0	64.5	-46.1	-28.5
External financing	812	665	459	250	961 ^d	41.5	-18.1	-31.0	-45.5	109.4

Source: ECLA, on the basis of data supplied by the Office of the Controller-General of the Republic, Ministry of Finance, Central Bank, and International Monetary Fund.

^aIncludes extrabudgetary operations.

^bBudgeted. Includes the changes introduced during the year.

^cEffective (preliminary figures).

^dIncludes arrears of interest.

³⁹However, the decline in the income from tariffs was more than made up for the surtaxes applied by the Executive in August in response to a Supreme Court decision declaring the floating of the colón unconstitutional. This decision meant, among other things, that the tariffs had to be recalculated on the basis of the official exchange rate of 8.6 colones per US dollar instead of on the basis of the prevailing fluctuating rate, as had been done since the Executive decided to float the colón at the end of the preceding year.

As regards expenditure, the increase in current spending was kept down to less than 9% in spite of the upward pressures exerted by inflation. This restriction was achieved through an absolute reduction in both interest payments on the debt and transfers to the rest of the public sector and to the private sector. The servicing of the public debt fell primarily because of the refinancing of the bonds in the hands of the commercial banks, but also because of the partial suspension of the servicing of the external debt in the second half of the year. With regard to transfers, there was marked under-execution of the programme budgeted, and the same approach was followed in the case of consumption expenditure, basically by not filling vacancies as they occurred. In the case of capital expenditure, it proved possible to decrease this by 17% in nominal terms by cutting the amount budgeted for capital transfers by over half and, in addition, under-spending even this. Moreover, the nominal increase in real investment was kept down to 4%. Altogether, expenditure rose by only 3% in nominal terms, representing a decrease of one third in real terms.

The dramatic improvement in the budgetary operations of the central government was, however, partially offset by the expansion of the deficit in its extra-budgetary transactions. This deficit increased by over 400 million colones, so that the reduction in the combined deficit of all central government transactions amounted to only 38%, as opposed to the 60% reduction in the deficit on transactions covered by the budget.⁴⁰

The results achieved over the period for the remainder of the non-financial public sector and for the consolidated budgetary transactions are shown in tables 22 and 23.⁴¹ The most outstanding result at the general level was the magnitude of the improvement in the global balance.

Originally, a big reduction of about 70% was programmed in the consolidated deficit of the public sector. With the subsequent expansions, however, the budgetary deficit in nominal terms came close to the level recorded the preceding year.⁴² In actual fact, the consolidated budget deficit was reduced by nearly 38% at current prices and by over 50% at constant prices. Compared with the final budget, the reduction was achieved primarily because the non-financial enterprises as a whole showed a deficit totalling only 55% of the large amount envisaged. All departments had lower deficits than envisaged, however (see table 22).

On the other hand, the improvement over the previous year was entirely attributable to the performance of the central government, since the reduction of nearly 1 950 million colones in its deficit considerably exceeded the approximately 1 400 million colones by which the consolidated deficit was reduced. Nevertheless, both local authorities and the public service institutions also managed to reduce their deficits somewhat.

In 1981 the current income of the consolidated public sector grew by 24%, while current expenditure increased by slightly less than 18%. Consequently, the deficit on current account was virtually eliminated. Capital expenditure, for its part, did not vary in nominal terms. The consequent reduction of nearly 38% in the global deficit made it possible, among other things, to

⁴⁰ The combined deficit fell from close to 4 180 million colones in 1980 to about 2 600 million colones in 1981. In 1981 total extrabudgetary expenditure amounted to 1 538 million colones and total income to 263 million colones. The doubling of the extrabudgetary expenditure in 1981 was primarily due to a sharp and unexpected rise in the State and employers' contributions to the Costa Rican Social Security Fund and to the repayment of part of the surtax to the banana producers. The deficit was financed primarily by increasing the floating debt and using resources scheduled for future years. See Office of the Controller General of the Republic, *Memoria Anual, 1981*, San José, 1 May 1982, pp. 48-49.

⁴¹ As may be seen, the current income and total expenditure of the central government amounted to the equivalent of only 47% and 46%, respectively, of the current income and total expenditure of the consolidated non-financial public sector in 1981. In addition, it may be noted that the current income of the State financial enterprises (the Central Bank, the nationalized commercial banks and other public financial entities) amounted to 95% of that of the central government.

⁴² In actual fact, the budgetary process of the central government distorts the picture somewhat. As a matter of routine, the central government prepares a regular budget, which usually provides for the expenditure financed out of the government's own resources, and an extraordinary budget, which usually covers the expenditure financed primarily through debts. When these budgets were combined, the initial consolidated deficit of the public sector came to 2 239 million colones instead of 1 169 million colones. After this adjustment had been made, the reduction originally proposed in the consolidated deficit came to 43%.

Table 22

COSTA RICA: SUMMARY OF OPERATIONS OF THE CONSOLIDATED
NON-FINANCIAL PUBLIC SECTOR, 1981^a

	Millions of colones					Growth rates				
	1978	1979	1980	1981 ^a	1981 ^b	1978	1979	1980	1981 ^a	1981 ^b
Central government										
Current income	4 026	4 239	4 982	7 900	7 292	14.0	5.3	17.5	58.6	46.4
Current expenditure	4 276	5 152	6 349	8 458	8 168	21.9	20.5	23.2	33.7	28.7
Saving	-250	-913	-1 367	-588	-876		265.2	49.7	-57.0	-12.5
Capital expenditure	1 208	1 477	1 930	1 912	2 113	34.9	22.2	30.6	-0.9	9.5
Global balance	-1 458	-2 390	-3 297	-2 500	-2 989	70.7	63.9	37.9	-24.2	-9.3
Other general government										
Current income	3 739	4 847	5 408	6 392	6 456	23.8	29.6	11.6	18.2	19.4
Current expenditure	3 319	4 286	5 025	6 299	6 042	34.7	29.1	17.2	25.4	20.2
Saving	420	561	383	93	414	-24.6	33.6	-31.7	-75.7	8.1
Capital income	158	186	286	400	510	20.8	17.7	53.8	39.9	27.5
Capital expenditure	671	597	1 160	845	1 523	13.3	-11.0	94.3	-27.2	31.3
Global balance	-93	150	-491	-352	-599				-28.3	22.0
State enterprises										
Saving	200	-120	-116	784	-1 839	-47.2				
Capital income	26	171	52	150	759	-78.2	557.7	-69.6	188.5	406.0
Capital expenditure	1 388	1 923	1 906	3 332	3 327	7.4	38.5	-0.9	74.8	74.6
Global balance	-1 162	-1 872	-1 970	-2 398	-4 407	46.3	61.1	5.2	21.7	123.7
Consolidated non-financial public sector										
Saving	370	-472	-1 100	289	-2 301	-61.4				109.2
Global balance	-2 713	-4 112	-5 758	-5 250	-7 995	74.8	51.6	40.0	0.9	38.9
Domestic financing	3 044	4 030	5 204	5 250	8 600	45.1	32.3	29.1	0.9	65.3
Internal	1 201	2 249	3 246	2 500	2 363	-2.1	87.3	44.3	23.0	-27.2
Banking system	851	2 856	2 401	...	1 837	...	235.6	-15.9		-23.5
Other	350	-607	845	...	526	...				-37.8
External ^c	1 843	1 781	1 958	2 750	6 237	111.9	-3.4	9.9	40.4	218.5
Variation in balances ^d (minus sign indicates an increase)	-331	82	554	-	-605					

Source: ECLA, on the basis of data supplied by the Office of the Controller General of the Republic, Ministry of Finance, Central Bank, and International Monetary Fund.

^a According to the programme agreed with the International Monetary Fund.

^b Actual results (preliminary figures).

^c Including arrears of interest.

^d Including statistical discrepancies.

secure a drastic reduction in the absorption of domestic credit, the net use of which by the non-financial public sector was reduced by 62%.

The magnitude of the restriction of public sector budgetary operations can only be properly appreciated by comparing it with the rise in the level of prices. It may be noted in this connection that as a share of the gross domestic product at current prices, current income fell from 31.1% in 1980 to 26.2% in 1981 and current expenditure went from 32.9% to 26.2%; total expenditure fell from nearly 40.7% to 31.5%; the global deficit was reduced from 9.5% to 4.1%, and net domestic financing went from 6.4% to 1.7% (see table 19).

Even though it had not been possible to effect the tax reform, the quantitative improvements envisaged for the public finances in the stabilization plan agreed upon with IMF were largely achieved; the other circumstances, however, turned out very differently from what had been

expected. In the situation prevailing in 1981, the very restrictive fiscal policy became one more factor tending to depress economic activity, rather than freeing resources for the private sector. But in the absence of special international financial support there seems to have been no viable alternative.

(c) Monetary policy

In the stabilization plans supported by IMF, the monetary aggregates play a key role both as means of adjusting the economy and as indicators for monitoring progress towards the macroeconomic goals laid down in the plan. Thus, quarterly ceilings are usually set for the growth of total domestic credit and domestic credit to the government, and minimum values for the net international reserves are also established. In addition, limitations are placed on the Government's external indebtedness, especially in the short term. The purpose of restricting the expansion of domestic credit is twofold: to curb inflationary pressures, and to minimize the imbalance between what the economy spends and what it produces, i.e., the deficit on current account. The limitations on the Government's domestic and external indebtedness in turn determine fiscal policy and, in particular, the size of the fiscal deficit. The limitation on the use of domestic credit by the Government is also intended to free financial resources to the private sector.⁴³ The setting of a minimum level for the net international reserves seems basically to be a measure for controlling the balance-of-payments performance, since in itself it cannot exert an independent influence on the balance of payments, although it does impose an additional restriction on the expansion of domestic credit. At all event, failure to comply with the quarterly floors or ceilings in respect of domestic credit and external indebtedness constitutes a reason for suspending the country's access to the financing envisaged when signing the agreement with IMF.

Table 23
COSTA RICA: MONETARY BALANCE

	Millions of colones ^a				Growth rates			
	1978	1979	1980	1981	1978	1979	1980	1981
Money	6 007	6 632	6 469	10 643	24.0	10.4	17.0	64.5
Currency outside banks	1 704	1 955	1 919	3 003	20.9	14.7	15.3	56.5
Demand deposits	4 303	4 677	4 550	7 640	25.3	8.7	21.0	67.9
Factors of expansion	12 586	16 391	17 669	10 365	22.4	30.2	7.8	-41.3
Foreign assets	1 376	512	-1 048	-11 205	-14.4	-62.4		
Domestic credit	11 210	15 874	18 717	21 570	29.2	41.6	24.2	15.2
Public sector	3 189	6 137	7 862	9 552	41.5	92.4	42.3	21.5
Central government (net)	1 710	3 935	4 885	...	82.3	130.0	40.2	...
Official entities	1 479	2 202	2 977	...	12.4	48.9	46.0	...
Private sector	8 023	9 732	10 855	12 018	24.9	21.4	12.8	10.7
Factors of absorption	6 579	9 759	11 202	-278	20.9	48.3	14.7	
Quasi-money	5 630	8 840	10 149	21 014	30.2	14.8	15.4	107.1
Long-term domestic borrowing	2 183	3 624	4 536	20 161	13.1	66.0	25.2	344.5
Other items (net)	-1 234	-2 705	-3 483	-41 453	51.8	119.2	22.8	1 090.2

Source: International Monetary Fund, *International Financial Statistics*, (various issues).

^aEnd-year balances.

⁴³This measure, together with the fact that there are no limits set on the indebtedness of the private sector in the exterior reflects the view that the main cause of the deficit on current account is the deficit in public finances and that the private sector uses the resources made available to it in a way that is socially more suitable.

Table 24

COSTA RICA: CREATION AND VELOCITY OF INFLOW OF MONEY

	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Growth rates^b									
Money									
M ₁	24.4	19.2	24.0	30.6	24.4	24.0	10.4	17.0	64.5
M ₂	21.8	33.0	37.8	38.0	27.0	26.9	33.0	16.0	90.5
Monetary base	17.4	14.1	33.5	34.2	45.9	-0.4	54.0	19.4	163.1
As a percentage of the increase^c									
Sources^d									
Net external assets	66.7	-240.3	36.5	58.4	84.0	2 407.1	-73.5	-69.6	-186.2
Net domestic assets	32.3	340.3	61.0	41.6	16.0	-2 307.1	173.5	169.6	286.2
Net domestic credit	-77.8	105.2	141.7	-3.8	463.0	194.7	84.7	161.1	-29.8
Financial public sector	119.0	9.3	73.5	2 608.0	78.8	100.8	34.9	19.5	10.3
Central government	168.0	-18.1	33.7	-29.9	23.0	69.9	19.5	-78.4	...
Other	-68.0	118.1	66.3	129.9	77.0	30.1	80.5	178.4	...
Financial institutions	-19.0	90.7	22.5	2 700.0	21.2	-0.8	65.1	81.5	-110.3
Other net domestic assets	177.8	-5.2	-41.7	103.8	-363.0	-94.7	15.3	-61.1	129.8
Uses									
Currency outside banks	75.3	59.1	33.1	46.3	28.4	-2 107.1	14.3	31.0	12.4
Other ^e	25.7	41.9	66.9	53.7	71.6	2 207.1	85.7	67.0	87.6
Ratios^f									
Currency outside banks (sight deposits)	.47	.45	.41	.41	.42	.40	.42	.43	.40
Currency outside banks (total deposits)	.29	.24	.20	.18	.18	.17	.14	.15	.11
Banks reserves (sight deposits)	.32	.29	.37	.39	.47	.34	.64	.62	.97
Bank reserves (total deposits)	.20	.16	.18	.18	.20	.15	.22	.21	.25
M ₁ Monetary multiplier (monetary base)	1.84	1.93	1.79	1.74	1.48	1.85	1.32	1.30	.89
M ₂ (monetary base)	2.61	3.04	3.14	3.22	2.81	3.58	3.09	3.01	2.64
Velocity of monetary inflow									
GDP/M ₁ ^g	5.03	5.49	5.62	5.23	5.44	5.03	5.21	5.30	4.75
GDP/M ₂ ^h	3.56	3.48	3.21	2.86	2.87	2.59	2.24	2.29	1.79

Source: ECLA, on the basis of official data; IMF, *International Financial Statistics*, (various issues).^aNovember 1981 by comparison with November 1980.^bYear-end balances for each year.^cFor some years there are slight discrepancies in the original data (see IMF, *op.cit.*). Here these discrepancies were reconciled in the entry "other net domestic assets".^dEach division adds up to 100%. ^eRoughly equal to the commercial bank reserves.^fThe multipliers were obtained directly. Those which were obtained indirectly by calculation [currency outside banks (demand deposits), etc.], do not always agree since the original data for some years do not tally.^gM₁ was projected to the end of the year.^hM₂ was projected to the end of the year.

Such restrictions on monetary assets and liabilities were also favoured as adjustment and control mechanisms in the stabilization plan which the Government of Costa Rica agreed with IMF in May 1981 and were strictly observed in the monetary policy throughout the year. The other two factors which had strong repercussions on the performance of the monetary variables in 1981 were the pronounced variation in the exchange rate and the inflationary process.

It was easy to respect the ceilings on public sector indebtedness with the exterior, because the country's access to the international financial markets had been practically closed ever since the end of 1980. In contrast, it proved to be very difficult —and perhaps even of questionable wisdom— to abide by the restrictions on the expansion of domestic credit when the rate of inflation was far higher than predicted, since they amounted to drastically restricting the real availability of credit. At all events, the nominal growth of domestic credit was kept very much lower than the rate of inflation, since the variation in the total domestic credit granted between the end of 1980 and the end of 1981 amounted to barely 15%, whereas the rate of inflation was 65% according to the consumer price index and 117% in terms of the wholesale price index. As a proportion of the product, domestic credit fell from 51% in 1980 to 40% in 1981. The supply of credit to the private sector was curtailed even further, since it grew by less than 11% in nominal terms (see table 23). By this time, however, the International Monetary Fund had already suspended the agreement for other reasons.⁴⁴

There can be no doubt that the sharp reduction in the real availability of credit in the economy also contributed to the drop in the level of activity. Consideration could have been given to an alternative monetary policy together with complementary measures such as higher tariffs, import prohibitions and more rigorous price controls, in order to keep a bigger supply of credit from jeopardizing the improvement in the balance of payments or helping to accelerate the inflation even further. It must be admitted, however, that a greater increase in domestic credit would not have solved the two fundamental problems facing the economy, i.e., the severe shortage of foreign exchange and the intense inflationary process. It might even, in fact, have made them worse. In this sense the pronounced reduction in the real supply of domestic credit in 1981 might be considered to be merely the counterpart of its excessive expansion in previous years.⁴⁵ To put it another way, there was really very little manoeuvring space left for handling the economic policy in 1981.

In spite of the modest growth of domestic credit and the further decline in net external assets (the net international reserves), the monetary base expanded by 163%, largely because of the way in which the enormous rise in the exchange rate affected the internal valuation of external assets and liabilities. The growth rate of the money supply (M_1) was much lower, so that the monetary multiplier again fell markedly, dropping from 1.3 in 1980 to .89 in 1981. Between 1973 and 1978 it had averaged 1.76. As in past years, this reduction was mainly attributable to the increase in the ratio of reserves to deposits made by the commercial banks in response to the Central Bank's decision to raise the legal cash reserves so as to neutralize part of the factors of expansion of the monetary base (see table 24).

⁴⁴See section 3 (a).

⁴⁵It should be borne in mind that between 1973 and 1980 domestic credit rose from 32% to 51% as a percentage of the gross domestic product (see table 20).

CUBA

1. Recent economic trends: Introduction and summary

In 1981 Cuban economic activity developed very vigorously. Thus, after having grown only very slowly the year before, the material product rose by almost 12%, the fastest rate in the last five years and the highest in Latin America for the year in question¹ (see table 1).

This favourable result was due mainly to the noteworthy expansion in the production of sugar cane, a crop which, after processing, has always generated the largest inflow of foreign exchange into the country. After successfully overcoming the problems caused by rust—a disease which had affected the plantations in previous years—the efforts made to replace and renew plantations and to consolidate a permanent policy aimed at improving and integrating agricultural and industrial activities in this field gave their fruits in the 1980/1981 harvest and above all in that of 1981/1982. The 1981 calendar year registered the largest output of sugar in history, thanks to the success achieved in synchronizing the cutting of the cane at its time of fullest ripeness and its delivery to the sugar mills.

Total exports also rose, because of the increase in sales of sugar and, to a lesser extent, tobacco. The latter crop turned in a volume of production without precedent in the last twenty years, after having been seriously affected in the previous two years (and especially in 1980) by the blue mould: a disease which brought the production of independent farmers² down to very low levels.

In addition to the two growth factors mentioned, reference must also be made to the process of accumulation, which, although extremely selective in previous years, when the growth rate of the economy was lower, nevertheless continued steadily, especially in certain sectors and programmes considered to be of basic importance, such as the energy field and the agricultural and industrial infrastructure. Some of these projects—in such fields as sugar, textiles, construction materials, certain agricultural implements, mining, etc.—were completed in 1980 and contributed to the increase in production in 1981. Indeed, as noted below, 1981 was perhaps one of the years with the highest relative level of completion of projects.

A leading role was played by the construction sector in the execution of these projects for the expansion of the economic infrastructure. Thus, the expansion of the installed capacity in factories producing cement and other construction materials made it possible to step up the building of dwellings and infrastructure of a social nature (hospitals, clinics, educational institutions and even hotels).

There were other elements, too, which increased the dynamism of the economic system. Firstly, the continued application of the system of direction of the economy adopted in previous years must be highlighted. Thus, for example, efforts were made to further expand and reorganize the systems of distribution and marketing. As part of this task, the agricultural and parallel markets (both belonging to the State) and the free peasants' markets³ (although the latter were of

¹In Cuba, economic activity is measured according to the System of Material Product Balances (SMPB), as is usual in the centrally planned economies. Almost all the other Latin American countries use the System of National Accounts (SNA), which is conceptually different from the SMPB. According to data supplied by the State Statistical Committee, the real growth rate of 11.7% was estimated on the basis of variations at constant 1981 prices. It was reported by the same source that the variation in the national product in current terms was almost 22%, thus giving an implicit variation in prices for the economy as a whole of approximately 9%.

²These producers are mostly affiliated to the National Association of Private Farmers (ANAP).

³See the section on Cuba in the *Economic Survey of Latin America, 1980*.

less relative importance) were responsible for expanding the coverage and facilitating the distribution of items of domestic consumption, thus encouraging the production of some goods in the private sector.⁴ Within the same category of factors, importance was assigned in official circles to the improvement of the machinery for securing external supplies, while substantial advances were made in the repair of different kinds of equipment.

Within the new system of management of the economy, wage reform measures were brought into operation in 1980 for the whole economy in order to promote higher production through individual and collective rewards to workers or enterprises exceeding predetermined levels of quantity and quality.⁵ The increase in the minimum wage and the effects of this wage reform promoted higher production.

Table 1
CUBA: SELECTED ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Total material product (millions of pesos) ^b	9 582	10 001	10 181	10 962	11 428	11 684	13 051
Population (thousands of inhabitants) ^c	9 292	9 423	9 541	9 638	9 714	9 708 ^d	9 717
Per capita material product (pesos)	1 031	1 061	1 067	1 137	1 176	1 204	1 343
Growth rates							
B. Short-run economic indicator							
Total material product	12.3	4.4	1.8	7.7	4.2	2.2	11.7
Per capita material product	10.6	2.9	0.6	6.6	3.4	2.4	11.5
Terms of trade							
With the Soviet Union	5.6	0.3	-	15.1	-5.4	19.0	0.2
With market economic countries	0.7	-28.2	-29.8	-13.7	-3.6	58.9	-10.9
Current value of exports of goods							
Total	32.0	-8.8	8.5	17.9	1.7	13.3	7.4
Sugar	37.4	-11.8	4.0	22.3	0.9	10.4	...
Current value of imports of goods							
Total	39.8	2.2	8.9	3.2	3.2	22.3	12.7
Petroleum and petroleum products	56.6	11.6	38.7	34.3	16.7	20.5	...
Average annual wage	4.8	3.1	-2.5	2.1	2.6	3.0	...
State Budget							
Current income	...	...	...	...	...	1.3	17.5
Total expenditure	...	...	...	...	...	1.3	17.5
Millions of pesos							
C. External sector							
Total merchandise trade balance	-161	-488	-544	-134	-187	-542	-822
With the Soviet Union	412	148	208	168	-154	-558	-768
With the rest of the Socialist countries	-66	-78	-105	-101	-20	-165	-54
With the rest of the world	-507	-714	-647	-201	-13	181	-

Source: ECLA, on the basis of data supplied by the State Statistical Committee and other international statistics.

^a Preliminary figures.

^b See footnotes 5 and 6 of table 2 below.

^c Annual average.

^d ECLA estimate.

⁴ In the city of Havana, in addition to the many traditional units for the distribution of rationed goods, which include the "State parallel market", there are 33 State agricultural markets and nine free peasants' markets.

⁵ The subject of material and other incentives had been extensively debated on a number of occasions, and after such incentives had been applied several times in the course of the revolutionary process, the new system was introduced in 1980 and its main effects began to be felt in 1981.

In addition, favourable effects were brought about during the year by the wholesale price reform decided upon at the end of 1980, which began to be applied in 1981. This reform was aimed mainly at updating the wholesale prices of certain basic inputs, especially petroleum. In December 1981 it was decided to extend this reform to retail prices as from January 1982, since these prices had remained almost unchanged during 1981. The aim of the reform was to bring the operations of the various production units in line with their possibilities for paying their own way.

The high growth rate of the economy in 1981 was hindered, however, by the persistence of some bottlenecks connected with external trade and the balance of payments.

Firstly, as on other occasions, the terms of trade were once again unfavourable for Cuba in its trade with the market economy countries. This, together with the growing rigidity of the international financial centres —factors which have also been adversely affecting the finances of many other countries of the region— had a negative impact on the Cuban economy. Thus, the external financial imbalance accumulated with certain countries and regions, among them several of the members of the European Common Market, made it increasingly difficult to continue expanding Cuba's trade with those economies.⁶

As in spite of the efforts made to diversify its exports the country still has a structure of production very similar to that of previous decades, and moreover its economy remains extremely open to the exterior, it needs a very large volume of external supplies which are increasingly difficult to obtain from certain market economies. This situation has undoubtedly been influenced by factors of a non-economic nature, as in the case of the embargo maintained against Cuba for many years by the United States. For these reasons, purchases from the member countries of the Council for Mutual Economic Assistance (CMEA), and especially from the Soviet Union, increased considerably in 1981, thus significantly increasing the trade deficit with this area.

A second serious obstacle in the short term which is rather difficult to appreciate in view of the high growth rate of both the global material product and the product of almost all the economic sectors was the decline in the production of certain foodstuffs (such as grains), which could not be compensated for by larger external purchases.

Thirdly, as those responsible for running the economy themselves admit, in spite of the efforts made by the authorities to improve efficiency and productivity through various measures connected with the management of the economy, these measures are still far from having achieved all their objectives, with the possible exception of the improvement in the sugar industry.

Finally, between June and October 1981 the population was affected by a highly infectious disease, dengue, which was intensively combated through a mass campaign co-ordinated by technical units of the Government with the support of the organizations of the masses, but which nevertheless used up substantial State resources because of the high international cost of the pesticides needed and the expense involved in national-scale mobilization.⁷

To sum up, 1981 was a year of rapid economic growth which made it possible to speed up the process of accumulation and satisfy to a large extent the normal consumption needs of the population, while at the same time continuing to apply the policy of expanding the infrastructure and social services. The fact, however, that in the midst of this promising picture obstacles of external origin persisted and even got worse during the year, especially because of the drop in sugar prices, as reflected in the record deficit on the trade account, points to unpromising prospects for the immediate future,⁸ especially in view of the growing tensions of a non-economic nature present in the international situation.

⁶With some exceptions such as Canada, Spain and some relatively less developed countries.

⁷The outbreak of dengue affected nearly 3% of the country's population.

⁸The annual plan for 1982 envisages growth of not more than 2.5% in the global social product. See Humberto Pérez, "Informe ante la Asamblea Nacional acerca del cumplimiento del plan de la economía nacional en 1981 y sobre el proyecto de plan para 1982", in *Granma*, 30 December 1981.

2. Trends in economic activity

(a) Total supply and demand

Although adequate quantitative information was not available on the components of total supply and demand, some observations may be made regarding their evolution on the basis of the trends in domestic production and the main external trade aggregates.

First of all, the global social product, and in particular the material product, grew considerably during 1981, thanks primarily to the excellent sugar harvest in the 1980/1981 and 1981/1982 seasons after an abnormally low harvest in the 1979/1980 season.

In spite of this, imports continued to increase, although not as fast as the material product, partly because of the fact that, in spite of the success achieved in the production of some basic items through the intensification of the policy of import substitution, the structure of production has not significantly changed and there is still a high relationship of dependence in this field. As will be noted below, according to some preliminary estimates the volume of imports from the Soviet Union increased by approximately 18%, while those from the market economy countries went down by about 7% as a result of the limitations on financing in convertible currencies and the policy of import substitution.

Table 2

CUBA: MATERIAL PRODUCT, BY ECONOMIC SECTORS^a

	Millions of pesos ^b					Percentage breakdown				Growth rates ^c			
	1977	1978	1979	1980	1981 de	1970	1975	1980	1981 de	1978	1979	1980	1981 de
Total material product	10 181	10 962	11 428	11 684	13 051	100.0	100.0	100.0	100.0	7.7	4.2	2.2	11.7
Agricultural	1 735	1 842	1 942	2 001	2 183	20.9	16.8	17.1	16.7	6.2	5.4	3.0	9.1
Sugar-cane agriculture	629	684	707	689	783	9.9	5.8	5.9	6.0	8.7	3.4	-2.6	13.7
Non-cane agriculture	362	378	390	414	473	4.6	3.8	3.5	3.6	4.4	3.0	6.3	14.2
Livestock raising	658	687	757	805	828	6.2	6.3	6.9	6.3	4.5	10.1	6.3	2.9
Agricultural services	16	16	17	22	26	-	0.2	0.2	0.2	1.3	6.3	29.8	21.4
Forestry	70	77	71	71	81	0.3	0.7	0.6	0.6	9.2	-7.8	0.6	13.6
Industrial	6 996	7 563	7 917	8 115	9 085	71.4	70.2	69.5	69.6	8.1	4.7	2.5	12.0
Electricity	184	206	240	277	320	2.2	1.5	2.4	2.5	12.5	16.4	15.2	15.7
Mining and metallurgy	146	148	150	162	176	1.2	1.3	1.4	1.3	0.8	1.8	8.2	8.3
Manufacturing ^f	6 666	7 209	7 527	7 676	8 589	68.0	67.4	65.7	65.8	8.1	4.4	2.0	11.9
Construction	1 450	1 557	1 569	1 568	1 818	7.7	13.0	13.4	13.9	7.4	0.8	-	15.9

Source: ECLA, on the basis of figures supplied by the State Statistical Committee.

^aThe material product is equivalent to the value of the gross production of the agricultural, mining, manufacturing, construction and electricity sector. According to official sources, "the basic criterion for determining the gross production and its allocation to a particular sector, branch or sub-branch is provided by the nature of the fundamental activity carried on by the enterprise, establishment, or department having an independent balance-sheet in which the economic activity in question is effected" (see State Statistical Committee, *Bases Metodológicas del Sistema de Balances de la Economía Nacional*, Havana, November 1981, p. 9). Consequently, the information given in the present table does not correspond exclusively to sectors and branches of origin: the classification used records, together with the main production of the enterprise units, the secondary production carried out in them, regardless of whether or not it corresponds, by origin, to the same branch of activity. If a classification based strictly on sectors of origin were used, in line with the criterion employed by the United Nations in the ISIC, the conclusions at the sectoral and branch levels would be different. Thus, the information for the agricultural sector includes secondary productions of the industrial and construction sectors, or productions computed in those sectors. Nevertheless, these differences are compensated in the total material product.

^bThe values given in the *Anuarios Estadísticos de Cuba* are at current prices. In this respect, the State Statistical Committee has indicated that all this information corresponds to records at constant 1965 prices, noting that from that year up to and including 1980, the prices of imports and final goods were frozen, and that the only goods valued at prices other than those of 1965 — and in any case frozen as from the year of their incorporation into the Cuban economic system — were the few articles not previously traded in the country.

^cThe growth rates correspond to real, not rounded, figures.

^dPreliminary figures.

^eAs the individual activities and the total were extrapolated independently on the basis of the variations at constant 1981 prices estimated by the State Statistical Committee, the sum of the activities does not coincide with the total for 1981.

^fIncluding fisheries but excluding metallurgy.

On the other hand, bearing in mind the high incidence of sugar exports in total demand and the fact that the volume of such exports increased by almost 15%, it may be assumed that the domestic demand for goods and services increased considerably, albeit less rapidly than material production. This assumption is confirmed on examining the evolution of the supply of products for domestic consumption, as reflected in the figures on retail trade turnover and other official data.⁹ According to government estimates, the daily per capita consumption of calories rose from 2 837 in 1980 to 2 900 in 1981, while protein consumption increased by 3%.

With regard to investments, a number of previously initiated projects were completed during 1981, but because of the growing difficulties encountered during the year —especially the accentuation in the deterioration of the terms of trade and the aggravation of international tensions— the criterion was followed of only undertaking new projects of an essential nature, and it would appear that this situation will be further intensified in 1982. At the same time, the expansion of the production infrastructure tended to be carried out on the basis of criteria of regional diversification. Outstanding among these projects were the following: an agricultural implement factory at Holguín, the expansion of the Mariel and Cienfuegos cement factories, a milk pasteurizing plant in Pinar del Río, a meat packing plant at Camagüey, a sugar mill and a glucose plant at Cienfuegos, a factory for high sugar-content products in Pinar del Río, and a bottle factory at Las Tunas. Work carried out in the construction sector included the erection of over 25 000 dwellings in the whole country, the considerable expansion of the accommodation capacity of four hotels, and important projects of a social nature such as two large hospitals (one in Pinar del Río and another in Granma Province), five clinics, three old people's homes, four homes for disabled persons, 25 secondary schools, 14 primary schools and 12 kindergartens. In addition, fifty livestock farming centres, a dairy farm, several artificial insemination centres and other projects to develop the pig and poultry farming branches were completed.

(b) *Growth of the main sectors*

As already noted, the total material product grew by almost 12% after a year in which economic activity had increased very slowly. Almost all sectors expanded considerably in 1981 except for the livestock sector, which grew by a little under 3%, and some branches (such as grains) of the crop farming sector. Industry, which had grown very little in 1980, and construction, which had stagnated in the period 1979-1980, grew vigorously, in contrast, during the year (see table 2).¹⁰

(i) *Agriculture.* The overall 9% growth of the agricultural sector, which trebled its growth rate of the previous year, reflected opposing trends. On the one hand, basic export commodities such as sugar and tobacco showed great dynamism after the successful combating of the rust and blue mould diseases which had helped to keep their production levels down in previous years. On the other hand, however, there were declines in such important food products as rice, maize and beans (see table 3).

⁹See Humberto Pérez, *op.cit.*

¹⁰It is worth clarifying some other points regarding the significance and interpretation of the macroeconomic figures for Cuba:

(a) As stated in the footnotes to table 2, the classification used records not only the main production of enterprise units but also their secondary production, regardless of whether or not it corresponds by its origin to the same branch of activity. The gradual improvement of the organization of enterprises and the policy of incentives which has been applied have resulted, in recent years, in the expansion of the secondary production of enterprise units. This is why the classification used, although useful from the point of view of planning, restricts the analysis if it is desired to examine activities exclusively according to their sectoral origin.

(b) From the methodological point of view, the rules governing the System of Material Product Balances (SMPB), through its principal indicators (global social product and material production) differ from those governing the United Nations System of National Accounts (SNA) through its main indicators (such as the gross domestic product). Although the figures presented on the material product make it possible to observe the evolution of the Cuban economy as a whole, they may differ both from the figures for the global social product (which includes other sectors of production not considered in the former concept) and from those for the gross domestic product in the SNA system.

In the case of sugar cane, the efforts which had been made for several years past to synchronize the harvesting and processing of the product and incorporate modern technology and suitable equipment began to give very satisfactory results in the last two harvesting seasons, which, taken together, resulted in a record level of sugar production during the calendar year (see tables 4 and 7). In 1981, advances were made in cane production, in the number of effective harvesting days worked, and in the processing of the product (amount of cane milled per day and industrial yield of sugar). The weather was favourable to sugar production during a large part of the year, and it was only in November that excessive rain caused floods which affected the cane plantations in Santa Cruz del Sur and some sugar mills (see figure 1).

Non-cane agricultural output increased by a little over 14%. This result was markedly influenced by the recovery of the tobacco crop, which had been almost wiped out by the blue mould epidemic the year before, but whose output grew sixfold in 1981. On the other hand, in addition to

Table 3
CUBA: INDICATORS OF AGRICULTURAL PRODUCTION^a
(Indexes of physical volume, 1970 = 100)^b

	1978	1979	1980	1981 ^c	Growth rates		
					1979	1980	1981 ^c
Crop farming products							
Grains							
Rice	125.0	116.2	130.9	126.2	-7.0	12.6	-3.6
Maize	106.4	108.4	153.6	148.0	1.9	41.7	-3.6
Beans	222.7	226.8	507.3	419.0	1.8	123.7	-17.4
Vegetables							
Tomatoes	262.2	308.2	415.1	611.4	17.5	34.7	47.3
Roots and tubers							
Potatoes	255.9	259.2	315.9	358.9	1.3	21.9	13.6
Fruit							
Citrus fruit	304.4	307.3	488.4	519.5	1.0	58.9	6.4
Sweet oranges	267.1	266.2	428.6	372.5	-0.3	61.0	-13.1
Bananas	337.2	314.3	361.3	390.1	-6.8	15.0	8.0
Mango	735.0	2 541.8	2 282.9	1 901.1	245.8	-10.2	-16.7
Guava	496.0	647.9	714.7	647.7	30.6	10.3	-9.4
Tobacco	129.3	102.9	31.2	176.8	-20.4	-69.7	466.7
Coffee	75.0	130.0	120.3	108.4	73.4	-7.5	-9.9
Cocoa	163.2	198.0	108.2	112.8	21.3	-45.4	4.3
Fibres							
Kenaf	2 039.9	2 847.1	1 834.5	2 841.7	39.6	-35.6	54.9
Henequen	98.4	101.7	95.6	72.2	3.4	-6.0	-24.5
Livestock products							
Eggs	131.2	138.7	159.8	162.1	4.9	15.3	1.4
Milk ^d	206.1	208.1	234.1	243.8	1.0	12.5	4.1
Poultry ^e	374.7	391.5	444.5	502.4	4.5	13.5	13.0
Beef ^f	106.8	99.4	101.7	105.6	-6.9	2.3	3.8
Pork ^g	387.4	380.4	362.4	428.3	-1.8	-4.7	18.1
Honey	150.4	137.2	153.8	185.0	-8.8	12.1	20.3

Source: ECLA, on the basis of figures supplied by the State Statistical Committee.

^aIncluding both State and non-State sectors.

^bFigures for 1970 include an estimate for the non-State sector.

^cPreliminary figures.

^dCow's and goat's milk (State sector only).

^eSlaughtering.

^fIndex, base 1976 = 100.

Table 4

CUBA: BASIC INDICATORS OF THE SUGAR INDUSTRY

	Production (thousands of tons) ^a		Industrial yield, base 96 ⁰ (percentage)	Days		Sugar cane milled per day (tons)	
	Milled sugar cane	Raw sugar base 96 ⁰		Nominal harvest	Actual	Nominal harvest	Actual
1960	47 492	5 943	12.51	103	88	466 289	542 344
1965	50 687	6 156	12.15	130	105	388 449	482 050
1970	79 678	8 538	10.71	217	143	367 442	557 818
1975	50 770	6 314	12.44	123	99	413 747	513 521
1976	51 999	6 156	11.84	130	99	399 088	526 922
1977	56 149	6 485	11.55	141	104	395 774	542 951
1978	67 043	7 351	10.96	168	119	400 087	563 198
1979	73 050	7 992	10.94	182	128	402 320	571 424
1980	61 600	6 665	10.82	149	109	412 663	565 775
1981 ^b	66 408	7 359	11.08	136	114	489 100	580 300

Source: 1960-1970: Central Planning Board, Statistical Bureau, *Boletín estadístico*, 1970; 1975-1980: *Anuario Estadístico de Cuba*, 1980; 1981: Data supplied by the State Statistical Committee.

^aSugar cane harvest year.

^bPreliminary figures.

the declines already mentioned in the harvests of rice and maize, which went down by about 4%, and the 17% drop in the bean harvest, there were also considerable declines in the production of some types of fruit (sweet oranges, mangos and guavas), coffee and henequen. In contrast, the output of some other crops (tomatoes, potatoes and bananas) continued to rise and more than made up for the decline in the other crops. Thus, even without the spectacular recovery of the tobacco crop, non-cane agriculture would have registered a slight increase.¹¹

The livestock subsector grew less than the year before (less than 3%, compared with a little over 6% in 1980), with differing growth rates in the different branches. On the one hand, the increase in cattle slaughtering was not as great as that of pigs and poultry (4%, 18% and 13% respectively), while although milk production continued to rise, it did so a good deal more slowly than the year before. The same occurred in the case of egg production, which increased by only a little over 1% after having grown by over 15% in 1980 (see table 3).

(ii) *The industrial sector.* Altogether, industry expanded by 12%, compared with only 2% in the two previous years. The electricity subsector showed greater dynamism (16%) than mining (8%) and manufacturing (12%). The increase in the generation of electric power was achieved through the entry into operation of various rural electrification projects and improvements in the distribution and transmission systems in various plants such as the Holguín mining and metallurgical complex and other plants in various regions of the country.

Largely because of the results obtained in the extraction of nickel, mining again expanded at a similar rate to that of the previous year, thus consolidating an encouraging trend after its scanty growth during the two-year period 1978-1979. In 1981, work continued on the construction of the first production line of the Punta Gorda nickel plant, the entry into operation of which is scheduled for the end of 1983.

The rate of activity of manufacturing rose considerably. The highest growth rate corresponded to consumer durables and capital goods (over 20%), compared with 16% for non-durable goods and 17% for intermediate goods (see table 5).

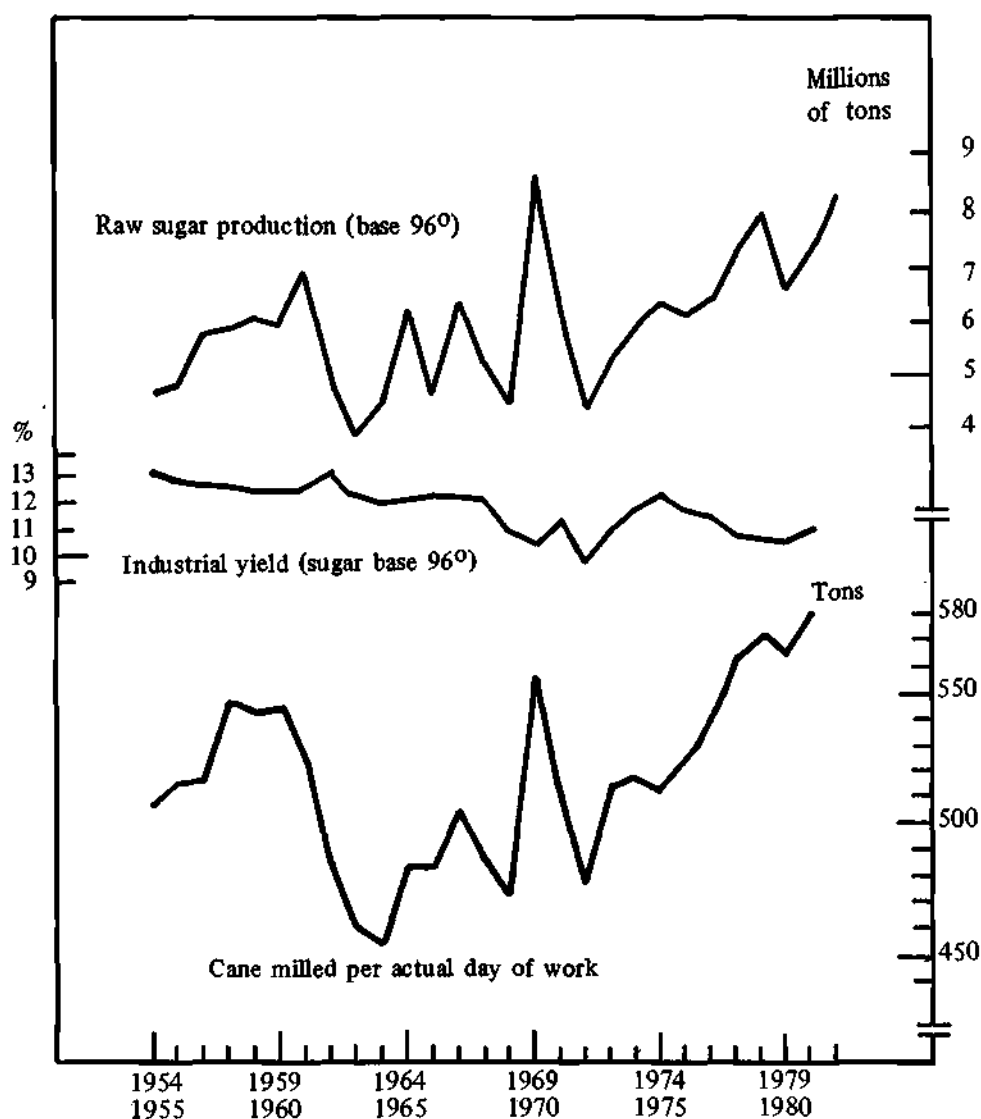
The highly favourable results achieved by the metal manufactures and machinery branch (although its weight in the industrial sector is still only small) were due mainly to the entry into

¹¹ Tobacco production increased by 467%, whereas in 1980 it had only represented 2.7% of the value of non-cane production. Consequently, if tobacco is excluded the increase in the latter in 1981 was approximately 2%.

operation of an agricultural implement factory and a factory for the production of non-electrical equipment, plus the expansion of a steel products plant. Finally, the assembly of buses continued to expand, in line with the policy of increasing the passenger vehicle fleet, and progress was also made in the programming of industrial machinery repair activities, as part of the plan designed to expand the spare parts industry.

Except for fuel production (essentially the refining of petroleum), which virtually stagnated, the rest of the branches of the intermediate goods industry registered quite marked growth during the year, especially in the case of textiles and construction materials, which grew by 17% and 14%, respectively. The first of these increases was due to the entry into operation of a high-capacity

Figure 1
CUBA: SOME SUGAR INDUSTRY INDICATORS



Source: ECLA, on the basis of official data.

plant, while the second was due to the fact that in 1981 some projects completed the previous year as part of the programme to expand cement production capacity began to turn out their products, especially the first production line in the Mariel cement factory at Havana, with a capacity of 740 000 tons per year, and the second line of the Cienfuegos cement plant, as well as the expansion of the asbestos products project at Havana.

As regards the industries oriented basically towards satisfying the demand for non-durable consumer goods, the 16% increase in their production reflected significant progress by all their components, the lowest increases being those for fisheries (8%) and foodstuffs (9%) and the highest being beverages and tobacco (26%). Sugar production, for its part, grew significantly in the context of a policy designed to improve the integration of the inputs/sugar cane/refined sugar production chain.

Among the projects completed in 1980 which came into full production in 1981 were the Guanabacoa meat packing plant, the Pinar del Río and Camagüey sugar mills, a yeast plant at Holguín, a poultry slaughtering plant at Villa Clara, and a liquid fodder plant at Camagüey.

(iii) *Construction.* The construction sector was the most dynamic in the whole economy in the early 1970s, and it maintained a high growth rate, with a few ups and downs, until 1978. In the following two years, however, it virtually stagnated. This evolution was influenced by the differing performance of the different types of construction work. Thus, for example, the limitations imposed by the country's external trade made it necessary in the middle of the decade to postpone the targets which had been set for the construction of housing and schools. In previous years, the construction of schools and hospitals had been intensified, whereas the lag in the construction of housing, for example, persisted in spite of the fact that the construction of multi-family units continued in the capital, other cities, and rural communities. During the 1970s —when the population increased at an average annual rate of only 1.2%— the number of new dwellings built was barely enough to satisfy the needs of the natural growth of the population. At the same time, however, there was a substantial qualitative change, since priority has been given within the construction sector to the improvement and expansion of water, sewerage and electricity services for housing, and their coverage has been markedly expanded.

The trends of 1979 continued in 1980, when the decline in the construction of agricultural installations, housing, schools, roads (except railroads) and water projects was offset by an appreciable increase in the construction of ports, railroads, certain special water projects, etc. In 1981, in contrast, the satisfactory results obtained in the sugar cane harvest, together with the implementation of some projects such as the expansion of cement production capacity, led to an important change in economic policy which was reflected in greater relative growth in construction within material production, thus enabling it to recover its previous growth rate. This important change in sectoral policy was due to the more rational use of resources to fulfil the central planning objectives, modified in the light of short-term changes. Mention may be made, in this respect, of the new impulse given to housing construction, which recovered the levels of four years before; the significant increase in road construction in general (but not that of railroads, probably because of their high imported content); and finally, the increase in the construction of industrial installations and water projects (see table 6).

(c) *The evolution of employment and productivity*

According to official data, the average number of workers increased by approximately 3% in 1981, probably because of higher participation by women in production and service activities. This increase in the labour force was accompanied by a rise of about 9% in productivity.

Although no official information is available on the evolution of the labour force by specific occupational categories during the past year, it may be noted that between 1975 and 1980 the relative importance of technicians in the total continued to increase (from 13% in 1975 to 18% in 1980), thanks to the efforts made to improve training. Over the same period, in contrast, the proportion of workers went down from 56% to 52%, and that of service workers from 16% to 14%.

During 1981, the proportion of non-directly productive workers in the labour structure continued to grow, due especially to the increase in that part of the labour force devoted to the social sectors such as health and, to an even greater extent, education.¹² Within the productive sector, a noteworthy feature was the increase in the proportion of workers employed in distribution services, especially commerce, which rose from approximately 7% in 1976 to a little over 11% in 1980, although this in no way compensated for the reduction in the proportion of human resources devoted to the direct production of goods. The policy of technological improvement and mechanization which has been followed in the agricultural sector, especially in sugar cane cultivation, was partly responsible for the relative reduction in the workers employed in this activity.

Finally, with a few changes, technical assistance continued to be provided to other countries in 1981 through missions by professionals and technicians, usually for long periods. Special mention may be made of the assistance given in the form of medical personnel and teachers to some countries in Africa, the Middle East and Latin America (such as Nicaragua). Advisory assistance services were also provided, either free of charge or on a paying basis in the fields of construction or the execution of infrastructural works.

Table 5

CUBA: INDICATORS OF THE MANUFACTURING MATERIAL PRODUCT

	Indexes (1975 = 100)				Growth rates ^b			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Total manufacturing sector^c	111.6	116.5	118.9	133.0	8.1	4.4	2.0	11.9
Non-durable consumer goods industry	113.9	120.9	122.2	142.2	5.8	6.2	1.1	16.4
Food (excluding sugar)	106.8	112.6	120.2	132.0	1.7	5.4	6.8	9.8
Sugar and sugar products	125.7	131.3	121.6	135.9	14.6	4.5	-7.4	11.8
Beverages and tobacco	109.6	117.5	117.0	147.2	3.8	7.3	-0.4	25.8
Clothing	132.6	149.3	143.1	163.3	10.2	12.5	-4.1	14.1
Fisheries	138.1	125.6	161.0	173.5	14.6	-9.1	28.2	7.8
Printed matter	115.3	122.5	129.3	159.6	3.2	6.2	5.6	23.5
Intermediate goods industry^c	100.0	100.7	102.4	120.2	7.7	0.8	1.7	17.3
Textiles	92.3	85.6	101.0	118.4	2.8	-7.3	18.0	17.2
Chemicals	96.2	99.2	100.1	130.2	13.8	3.1	0.9	30.1
Fuels	98.6	98.8	96.7	96.6	4.6	0.2	-2.1	-0.1
Construction materials	115.1	115.1	117.7	133.9	2.9	0.2	2.1	13.8
Consumer durables and capital goods industry	126.8	139.6	143.2	171.8	18.5	10.1	2.6	19.9
Construction of non-electrical machinery	148.5	162.3	172.2	210.9	21.1	9.3	6.1	22.5
Electro-technical and electronic goods	86.6	95.9	93.6	106.8	13.4	10.7	-2.5	14.1
Metal products	121.8	137.0	130.9	152.1	15.0	12.5	-4.5	16.2
Other manufactures^{cd}	112.3	107.9	116.4	133.5	14.2	-3.9	7.8	14.7

Source: ECLA, on the basis of data supplied by the State Statistical Committee.

^aPreliminary figures.

^bThe growth rates were calculated on the basis of real figures rather than indexes.

^cExcluding basic metal industries.

^dIncluding, inter alia, leather industry, glass and pottery, paper and pulp, forest industries and timber processing.

¹²In 1972, workers in education represented 8.4% of the total; in 1976, 9.5%; and in 1980, 12.1%.

Table 6

CUBA: GROSS PRODUCTION OF THE CONSTRUCTION SECTOR

	Indexes (1975 = 100)				Percentage breakdown			Growth rates			
	1978	1979	1980	1981 ^a	1970	1975	1981 ^a	1978	1979	1980	1981 ^a
Sectoral total	123.0	123.1	125.4	145.3	100.0	100.0	100.0	7.5	0.1	-0.1	15.9
Agriculture	69.7	65.8	61.6	61.3	9.6	8.4	3.3	3.0	-5.6	-6.5	-0.5
Housing and urbanization	91.7	87.6	85.7	100.0	5.0	12.6	8.1	-6.2	-4.5	-2.3	16.7
Education	84.0	68.0	53.8	41.3	2.3	16.9	4.8	-12.8	-19.0	-20.9	-23.3
Industry	215.0	226.7	227.7	265.2	15.2	11.7	20.3	19.4	5.4	0.4	16.5
Water resources	113.9	101.8	97.0	98.3	10.7	9.5	6.2	5.1	-10.6	-4.7	1.3
Highways (excluding railways)	96.9	90.8	77.6	115.3	13.4	13.8	8.8	-3.4	-6.3	-14.5	48.6
Railways	281.4	281.9	394.3	269.7	0.4	1.5	2.6	5.3	0.2	39.9	-31.6
Hydrological works	117.7	110.9	134.1	162.9	1.9	1.8	1.7	3.6	-5.8	20.9	21.5
Marine facilities	128.3	116.4	130.1	129.7	0.9	2.2	2.2	4.0	-9.3	11.8	-0.3
Others	152.8	174.5	184.0	228.0	40.6	21.6	42.0	25.9	14.2	5.4	23.9

Source: ECLA, on the basis of data provided by the State statistical Committee and the Anuario Estadístico de Cuba, 1976 and 1980.

^aPreliminary figures.

3. The external sector

Despite the great dynamism of Cuban economic activity in 1981 and the record production of sugar achieved in that year, the serious imbalances in external trade became more acute and there was an aggravation of the long-standing rigidities of the economy, which was still subjected to significant pressure by, *inter alia*, the long economic embargo imposed by the United States. Among the positive features, mention may be made of the considerable increase in the volume of exports (especially of sugar), the drop in the value of imports from both the Soviet Union and from the market economy countries, and the progressive improvement of the instruments and the execution of complementary policies within the framework of the Council for Mutual Economic Assistance (CMEA).

These favourable effects were, however, upset by various adverse circumstances: firstly, the world crisis which affected the international prices of a number of basic commodities, and especially sugar (although this phenomenon was not to manifest itself in all its seriousness until 1982); secondly, the growing difficulties in trading with the market economy countries, due partly to the accumulated trade deficit but also to the rigidity with which the financial centres have been operating in the last few years; thirdly, the fact that the financial restrictions in question further accentuated the tensions of a non-economic nature and led to some freezing of trade conditions and volumes with some market economy countries, and fourthly, the fact that an economy which depends to a high degree on the exterior requires larger external purchases to keep up its growth rate when growing in a generalized manner, even when a strict and selective import policy is applied.

To sum up, in spite of the increase in the volume of exports the deterioration in the terms of trade limited Cuba's capacity to make purchases in the market economies and also, acting as a compensatory element, led to an increase in the trade deficit with the socialist countries in general and the Soviet Union in particular.

(a) *Merchandise trade*

(i) *Exports.* The volume of sugar exported rose by around 15% (see table 7). There was also a sharp increase in external sales of tobacco during the year, thanks to the noteworthy recovery by this crop. In addition, increased efforts were made to secure sales abroad of certain non-traditional industrial products such as cement, although exports of this product are still only small. These positive effects, however, were offset by the drop in sales of fish, oranges and nickel, and especially by the decline in the international prices of sugar, which went down by 40% on the world market and by approximately 25% in the case of bilateral agreements, but suffered only a very slight decline as regards the exports to the Soviet Union.¹³

The big increase in sugar production made it possible to expand the volume exported both to the Soviet Union and to the rest of the socialist markets. Whereas the latter had received 17% of the total volume sold in 1978, in 1981 they took almost 23% of the total. Although the volume of sugar purchased by the market economy countries was almost 50% greater than that taken by the socialist countries (except the Soviet Union), the foreign exchange value was practically the same in both cases, because of the difference in the prices paid (see table 8).

In these circumstances, the value of exports rose by 7%, which was a good deal less than the increase in imports (see table 9).

(ii) *Imports.* In 1981, imports increased by almost 13%: i.e., by a similar amount to the year before. Although data broken down by the main categories are not available, according to official sources there was a decrease in the volume of food imports, which up to 1980 represented approximately 15% of total imports from the Soviet Union.¹⁴ Within the total purchases made from the OECD countries, Canada was the largest supplier for the third successive year, followed by Japan, which in 1981 recovered to some extent its importance as a supplier of Cuba, although not reaching the high levels of four years before (see table 10).

Table 7

CUBA: PRODUCTION, EXPORT AND EXPORT PRICES OF SUGAR

	Thousands of tons		US cents per pound	
	Sugar production ^a	Sugar export	Price paid by the Soviet Union	Price on the world market ^b
1970	7 559	6 906	5.94	3.68
1971	5 763	5 511	6.41	4.50
1972	4 541	4 140	6.45	7.27
1973	5 188	4 797	11.82	9.45
1974	5 701	5 491	19.30	29.66
1975	6 193	5 744	26.36	20.37
1976	5 918	5 764	27.43	11.51
1977	6 705	6 238	26.94	8.10
1978	7 427	7 197	36.71	7.82
1979	7 515	7 199	37.17	9.65
1980	6 554	6 170	47.45	28.15
1981 ^c	7 926 ^d	7 072	...	16.88

Source: ECLA, on the basis of data from the *Anuarios Estadísticos de Cuba* and the State Statistical Committee.

^aCalendar year.

^bInternational Sugar Agreement prices.

^cPreliminary figures.

^dInternational Sugar Organization, *Statistical Bulletin*, March 1982.

¹³The Soviet Union and Cuba regulate their international transactions in line with a "sliding base" scale of prices: a package deal which tends to compensate for sharp fluctuations in prices. If we compare the price paid for sugar by the Soviet Union with that paid on the world market in table 7, we see that on average the price paid by the former was 20% higher than the latter during the first half of the 1970s and more than three times as high in the second half.

¹⁴In certain years, substantial food purchases were also made from some countries of the European Common Market.

Table 8

CUBA: VALUE AND VOLUME OF SUGAR EXPORTS,
BY PURCHASER COUNTRIES

(Percentages)

	1978	1979	1980	1981
Value	100.0	100.0	100.0	100.0
Soviet Union	79.7	76.1	61.7	65.0
Rest of socialist countries	11.7	14.0	12.8	17.2
Rest of world	8.6	9.9	25.5	17.8
Volume	100.0	100.0	100.0	100.0
Soviet Union	54.4	52.9	44.0	45.4
Rest of socialist countries	17.3	18.8	20.6	22.8
Rest of world	28.3	28.3	35.4	31.8

Source: ECLA, on the basis of official data supplied by the State Statistical Committee of Cuba.

Table 9

CUBA: EXPORTS, IMPORTS AND TRADE BALANCE

(Millions of Cuban pesos)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Total exports	1 050	861	771	1 153	2 237	2 952	2 692	2 918	3 440	3 500	3 967	4 259
Soviet Union	529	304	224	477	811	1 662	1 638	2 066	2 496	2 370	2 253	2 455
Rest of socialist countries	248	261	197	268	472	341	452	377	420	514	534	823
Rest of world	273	296	350	408	954	949	602	475	524	616	1 180	981
Total imports	1 311	1 387	1 190	1 463	2 226	3 113	3 180	3 462	3 574	3 687	4 509	5 081
Soviet Union	691	731	714	811	1 025	1 250	1 490	1 858	2 328	2 524	2 811	3 223
Rest of socialist countries	226	239	200	224	328	407	374	482	521	534	699	877
Rest of world	394	417	276	428	873	1 456	1 316	1 122	725	629	999	981
Overall balance	-261	-526	-419	-310	11	-161	-488	-544	-134	-187	-542	-822
Soviet Union	-162	-427	-490	-334	-214	412	148	208	168	-154	-558	-768
Rest of socialist countries	22	22	-3	44	144	-66	78	-105	-101	-20	-165	-54
Rest of world	-121	-121	74	-20	81	-507	-714	-647	-201	-13	181	-

Source: ECLA, on the basis of data from the Anuarios Estadísticos de Cuba and the State Statistical Committee.

^aPreliminary figures.

In the case of imports from the Soviet Union, machinery and equipment and fuels were the most important categories, at least up to 1980, and their total share increased from 50% in 1977 to almost 60% in that year. Furthermore, in spite of the special price (adjustable on an annual basis) granted by the Soviet Union on preferential terms, the effect of the gradual rise in petroleum prices has been considerable, even though these preferential prices never reached the level of those prevailing on world markets. Partly for this reason, the share of imports of petroleum and petroleum products gradually increased from 13% in 1975 to 26% in 1980.

(iii) *The terms of trade.* The only year in the last six in which the terms of trade rose both as regards transactions with the market economy countries and with the Soviet Union was 1980. In 1981 the terms of trade dropped 17% in the case of the former and remained virtually unchanged in the case of the latter (see table 11).

As a result of this evolution and of the volumes exported to the two areas in question, the purchasing power of exports to the Soviet Union increased by 12%, while that of exports to the market economy countries went down by 10%.

b) The trade balance

The merchandise trade deficit, which had increased in 1979 and especially in 1980, reached record levels in 1981. Thus, between 1980 and 1981 the deficit rose from approximately 540 million Cuban pesos to a little over 820 million, equivalent to almost 20% of total exports. Even so, the relative amount of the deficit was well below that registered in 1971 and 1972, when the merchandise trade deficits were equivalent to over 60% and almost 55% of external sales, respectively. Even though not of such spectacular dimensions, the most recent deficit was nevertheless very high and continued to be the result of a structural weakness of the economy, for in spite of the progress made in the process of diversification of production, the country continues in its external relations to show the features of a primary export economy dominated by a single product. In other words, the efforts which have been made for some years past with the aim of securing true diversification of exports have not yet borne fruit.¹⁵

The trade deficit came to almost 770 million Cuban pesos with the Soviet Union and 54 million with the rest of the socialist countries. In contrast, trade with the remaining countries of the world was in balance. In the case of the first group of countries, the accumulated trade deficit up to 1974 of nearly 3 600 million pesos went down to about 2 600 million in the following four-year period. Various factors caused this tendency to be reversed as from 1979, however. On the one hand, in the last three years the external financial imbalance became more acute as a result of the higher prices of certain raw materials and inputs as well as the rise in interest rates and the

Table 10

CUBA: STRUCTURE OF IMPORTS, BY MAIN COUNTRIES OF ORIGIN

	1977	1978	1979	1980	1981 ^a
USSR	100.0	100.0	100.0	100.0	...
Machinery in general ^b	27.4	30.8	30.1	32.4	...
Energy-related products ^c	23.2	25.4	27.6	26.9	...
Raw materials ^d	15.6	15.1	13.7	11.6	...
Foodstuffs	16.4	11.3	12.9	15.4	...
Durable consumer goods ^e	4.3	4.4	3.9	3.8	...
Other non-specified goods	13.1	13.0	11.8	9.9	...
OECD	100.0	100.0	100.0	100.0	100.0
Federal Republic of Germany	6.6	8.4	10.8	7.2	7.1
Canada	15.4	22.0	22.8	23.8	24.5
Spain	13.5	11.5	20.7	12.5	15.1
France	5.0	5.1	4.6	17.7	12.7
Japan	32.1	24.4	14.1	15.9	19.6
Others ^f	27.4	28.6	27.0	22.9	21.0

Source: ECLA, on the basis of data from the USSR Foreign Trade Yearbook (several issues) and OECD, Statistics of Foreign Trade.

^aJanuary - August.

^bIncludes machinery, equipment and means of transport.

^cIncludes coal, petroleum and related products.

^dIncludes metals, chemical products, textile fibres, paper and wood.

^eIncludes clothing, electro-domestic appliances and cultural articles.

^fIncludes the other OECD countries, except Yugoslavia.

¹⁵Thus, in the period 1978-1980 the share of sugar industry products in the total value of exports of goods averaged more than 85%.

Table 11
CUBA: MAIN FOREIGN TRADE INDICATORS*

(Indexes 1970 = 100)

	1977	1978	1979	1980	1981
Exports of goods					
Value					
Soviet union	390.5	471.8	448.0	425.9	464.1
Market economy countries	174.0	191.9	225.6	432.6	359.6
Volume					
Soviet Union	105.1	193.8	100.2	75.5	84.4
Market economy countries	84.8	98.0	99.5	106.2	114.5
Unit values					
Soviet Union	371.7	454.6	446.9	563.9	550.0
Market economy countries	205.2	195.9	226.7	407.2	314.0
Imports of goods					
Value					
Soviet Union	268.9	336.9	365.3	406.8	466.4
Market economy countries	284.8	184.0	159.6	253.6	249.0
Volume					
Soviet Union	145.9	172.0	179.7	188.6	222.1
Market economy countries	188.9	110.2	79.7	112.0	118.5
Unit values					
Soviet Union	184.3	195.9	203.3	215.7	210.0
Market economy countries	150.8	166.9	200.2	226.4	210.1
Terms of trade (goods)					
Soviet Union	201.7	232.1	219.8	261.4	261.9
Market economy countries	136.1	117.4	113.2	179.9	149.5

Source: ECLA estimates on the basis of data from the *Anuarios Estadísticos de Cuba*, the State Statistical Committee of Cuba, United Nations, *Monthly Bulletin of Statistics*, and other international statistics.

*Not including trade with the socialist countries, apart from the Union of Soviet Socialist Republics.

hardening of other terms of loans. On the other hand, and possibly partly as a result of the foregoing, it was more difficult to obtain certain products needed for the development process from some parts of the world, and this phenomenon grew worse in 1980 with the intensification of the United States economic embargo. Finally, it proved necessary to expand external purchases once again in order to satisfy urgent supply needs. Because of the difficulties in obtaining financing in the market-economy countries, these increased imports apparently had to come mainly from the expansion of trade with the CMEA countries.

Thus, in recent years there has been an important turnaround in the origin of Cuba's imports, for whereas in the mid-1970s the imports from the Soviet Union were of similar value to those from the Western countries (1 300 million pesos), in 1981 the former rose to 3 200 million, whereas the latter dropped to less than 1 000 million: a similar value to that of purchases from the other socialist countries, which five or six years earlier had only been equivalent to about one-third of those from the market economies (see table 9).

This phenomenon was due, on the one hand, to the policy of import substitution which has been applied in recent years in order to alleviate the effects of the world crisis, and on the other to the restrictions caused by the acute shortage of convertible currency.

One of the ways in which Cuba could maintain balanced trade with the market economy countries which have traditionally supplied it with raw materials, foodstuffs, spare parts and capital goods would be to diversify its exports. On the other hand, the possibilities for transferring the accumulated credits to direct investment are still uncertain, because trade with these countries

is inevitably tending to stagnate or to be replaced in part with that between Cuba and other countries such as Mexico and Canada, which have gradually increased their transactions. At all events, if some three-cornered arrangements are not adopted, the decline in trade with the first-mentioned countries will leave accumulated debts or lines of credit pending, and these are already beginning to become onerous because of commitments in respect of the payment of interest and amortization.

Finally, efforts were made during 1981 to achieve a bigger inflow of foreign exchange through the export of goods and services such as the provision of construction and technical assistance services to other developing countries, as already mentioned (although in some cases these services are provided as donations), and by increasing tourism. Although no detailed data are available on the inflow of foreign currency from the latter activity, the official statistics on the number of tourists visiting the country allow it to be calculated that they generated more than 200 million Cuban pesos in income.¹⁶

4. Prices and wages

In line with the policy laid down under the System of Management of the Economy, a general reform of wages began to be applied in the second half of 1980 and its principal effects became widespread in 1981. Furthermore, some imbalances which had gradually been manifesting themselves led the authorities to make plans for a reform of wholesale prices, and this was carried out in early 1981. Finally, in line with these two reforms, reform of retail prices was begun at the end of 1981 so as to compensate in part for the increase in costs caused by the former.

The general wage reform applied in the second half of 1980 had been adopted with the aim of promoting increased productivity, to which end wages were based essentially on the quantity and quality of work done. Among the main measures applied was an increase of 10% in the minimum wage and the improvement of the system of monetary incentives in accordance with production norms, some of them of an individual nature and others designed to optimize collective work. In other words, it was aimed to stimulate increased productivity on the part of the worker in two ways: at the personal level and at the level of the group of workers in an enterprise. Part of the latter incentive goes to a fund which is subsequently distributed on an individual basis, while another part is added to funds of the enterprise set aside for the execution of social projects for the benefit of its workers. On the basis of official data, it may be estimated that the latter reform increased the nominal average wage by 14% during 1981 (from 148 to 168 pesos per month).

In general, domestic prices had remained valid since 1965 (and some of them even since 1959), since a large percentage of them had been frozen. In view of the policy of rationing the supply of essential goods in order to ensure that they reach the entire population, many articles were sold at two considerably different prices. In all cases, except that of the products distributed more recently through free peasant markets, marketing was centralized and was the direct responsibility of the State, the difference between the two prices for a given product being transferred to government funds. The application of a policy of differential prices for many products of mass consumption and the increases in prices of inputs purchased abroad, however, caused serious imbalances in the finances of many production units which made the application of the system of management of the economy more difficult. Moreover, the fact that the prices of a number of products had been frozen since 1965 "disguised" the savings of enterprises.

Consequently, among the reforms to the system of managing the economy it became clear that it was necessary to make some significant changes in the system of wholesale prices, and these changes began to be put into effect in January 1981. This reform was begun by fixing a realistic price for petroleum products which was very close to that prevailing on the world market. Because of the high incidence of this input in production in general, a new list of wholesale prices was

¹⁶In 1981 tourism amounted to 2.4 million tourist/days: a figure 3% higher than that for 1980, which in its turn had been 11% more than the year before.

prepared for the basic products of industry, agriculture and construction, and new tariffs were fixed for the transport of freight.

During almost the whole of 1981, however, efforts were made not to transfer these increases to retail prices, and the prices of goods were kept frozen both in the system of rationing and in the parallel State markets. Nevertheless, with the consolidation of the system of distributing some goods through the free peasant markets already referred to, the consumer prices of the products sold there rose spontaneously to some extent, considerably increasing the income of those selling them. In these circumstances, on 15 December 1981 the reform of retail prices was begun, the main effects of which would naturally be felt in 1982. These reforms included changes in the prices of approximately 150 products: for example, the price of gasoline was raised from 18 to 32 centavos per litre; that of boneless beef was increased from 42 to 73 centavos per pound; rationed milk went up from 20 to 25 centavos per litre, while the prices of all the products not subject to State distribution were frozen (for example, unrationed milk was kept at 80 centavos per litre).¹⁷

No information is available on the average increase in wholesale and retail prices during the year. It may be assumed, however, that this increase was quite substantial in the case of the former but very slight in the case of the latter, since, as already noted, the reform of retail prices only began to be applied in the last days of the year, and even then to only a limited number of rationed products, albeit important ones, while the prices of products not distributed by the State were frozen. On the basis of official data, the variation during the year in the implicit prices used in the calculation of the material product was of the order of 9%, which represents a new phenomenon in Cuba.¹⁸

¹⁷In Cuba, distribution of goods to the consumer is carried out by the State, except for part of the agricultural production —of minor overall significance— which is distributed through the free peasant markets.

¹⁸In view of the special characteristics of a centrally planned economy, this figure should be viewed with some caution, since it is not possible to infer from this item of information an approximate estimate of the variation in retail prices, as can usually be done when analysing inflation in the economies of most of the other countries of the region.

CHILE

1. Recent economic trends: Introduction and summary

The year 1981 marked a turning point in the recent history of the Chilean economy. It began with the expectation that the rapid economic growth of previous years would continue, and this expectation lasted in general for the first half of the year. During the following months, however, the signs that the economy had entered a recessive phase began to become more numerous, and by the end of 1981 it was evident that the contraction in economic activity and employment would be both far-reaching and difficult to overcome. Thus, although the economic growth rate of over 5% was one of the highest registered in Latin America, it was due almost exclusively to the big expansion in the first half of the year, since in the last months of 1981 economic activity barely increased at all, while the rate of unemployment rose sharply. This abrupt transition from positive changes to others of a negative nature, not only as regards the evolution of the product but in almost all the main indicators —be they real or financial, effective results or expectations— was without doubt the most striking feature of the evolution of the Chilean economy in 1981.

For many, this change came as a surprise, for 1981 opened with promising signs: firstly, economic activity had been growing at an average rate of almost 8.5% for the last four years (although the growth rate was much less impressive —only 3.8%— if measured from 1974); secondly, inflation was clearly going down, and in 1980 a fiscal surplus had been obtained for the second year running, while finally the unemployment rate —although still very high— showed signs of slowly giving way in the face of the steady growth of the economy and, above all, the boom in the construction sector. Thus, the main macroeconomic variables seemed to be either under control or else evolving in the right direction (see table 1 and figure 1).

The most important thing, perhaps, was that it seemed that the economy had already managed to absorb the potentially disruptive effects which were initially to be expected from the liberalization of the system of prices, the trade and financial openness, the creation of a capital market, the reduction in size and reorientation of the economic role of the State, and other structural changes associated with the new development strategy. The productive, and above all the distributive, cost of these changes had undoubtedly been high. At the end of 1980, however, even the distributive indicators showed signs of recovery: total wages were growing more rapidly than the product, the Government was increasing its expenditure in the social area, and such important indexes of social well-being as infant mortality and the percentage of undernourished children —aspects on which the Government had concentrated its efforts— showed steady and significant progress.

There was, it was true, no lack of critical attitudes which cast doubts, for example, on the solidity of the economic expansion and especially the possibilities for future growth, in view of the low coefficient of fixed investment which had been registered from 1974 onwards. At the end of 1980, however, the most serious doubt concerned the external balance, for in that year the growth rate of the value of imports had not only been very high (36%) but had also considerably exceeded that of exports. As at the same time there had been a sharp rise in net remittances of interest and profits, the current account deficit had exceeded US\$ 2 billion —equivalent to one-third of the total value of exports of goods and services—, and although this deficit had been more than financed by the large net inflow of capital, this had involved an increase of almost 32% in the gross external indebtedness (see table 1).

As the net international reserves had also risen considerably, however, to the equivalent of close on 60% of the value of imports of goods and services, and as exports of goods and services had increased at the very high rate of 29%, it was possible to argue that the concern over the external imbalance was relatively unfounded and even that, far from representing a problem, the growing balance-of-payments current account deficit was rather a symptom of the powerful growth of the economy, which was naturally attracting foreign capital desirous of participating in the profits generated by the rapid and continuous expansion of economic activity.

Table 1

CHILE: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	8 093	8 378	9 204	9 960	10 785	11 598	12 212
Population (millions)	10.2	10.4	10.6	10.7	10.9	11.1	11.3
Per capita gross domestic product (dollars at 1970 prices)	794	808	873	928	988	1 044	1 081
Growth rates							
B. Short-run economic indicators							
Gross domestic product at market prices	-12.9	3.5	9.9	8.2	8.3	7.5	5.3
Per capita gross domestic product	-14.4	1.8	8.0	6.4	6.5	5.7	3.5
Gross income ^b	-18.9	2.9	8.7	7.9	7.8	6.5	3.9
Terms of trade	-35.9	6.4	-8.7	-3.8	7.1	-3.4	-10.7
Current value of exports of goods and services	-21.0	31.3	7.9	13.0	57.1	29.2	-7.7
Current value of imports of goods and services	-13.0	-3.3	45.1	26.1	44.0	36.0	26.3
Consumer prices							
December - December	340.7	197.9	84.2	37.2	38.9	31.2	9.5
Variation between annual averages	374.7	232.8	113.8	50.0	33.4	35.1	19.7
Money	277.1	200.1	123.8	60.5	59.1	77.1	2.1
Real wages and salaries	-3.3	0.5	12.9	6.4	8.3	9.0	9.1
Rate of unemployment ^c							
Greater Santiago	16.2	16.8	13.2	14.0	13.6	11.8	11.1
Nation-wide	14.5	14.8	12.7	13.6	13.5	11.8	10.7
Current income of government	366.3	236.5	117.4	70.3	69.3	50.5	14.0 ^d
Total expenditure of government	261.9	225.9	112.4	64.5	52.3	54.2	29.3 ^d
Fiscal deficit/total expenditure of government ^e	9.5	8.9	7.4	3.6	7.2 ^e	2.1 ^e	4.5
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-217	425	-281	-696	-619	-1 154	-3 486
Balance on current account	-498	132	-567	-1 111	-1 205	-2 024	-4 869
Variation in net international reserves	-184	272	125	683	1 061	1 331	162
General external debt (gross)	4 668	4 530	4 879	6 425	8 162	10 746	14 500
General external debt (net) ^f	4 797	4 422	4 606	5 367	5 848	6 672	10 700

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cPercentage.

^dGrowth of public sector income and expenditure as a whole in 1981.

^eSurplus.

^fExcluding variation in reserves due to revaluation of gold.

^gIncluding variation in reserves due to revaluation of gold.

Finally, the downward trend in domestic interest rates —which had dropped from 39% to 12% in real terms between 1977 and 1980— and the belief that the growing openness to external finance would cause them to keep on dropping also helped to explain why the expectations of most of the economic agents were very positive at the beginning of 1981.

These expectations gradually changed to an increasingly marked degree, however, as the economy suffered a series of impacts —financial to start with and real afterwards— and the evolution of the main macroeconomic indicators visibly deteriorated.

The first of these unexpected impacts was the trebling, as from the first quarter, of real interest rates (from 12% annually the previous year to almost 39% in 1981). This very sharp rise, which was at first interpreted as only transitory but which subsequently lasted throughout the year, helped to discourage investment and greatly increased the financial costs of enterprises, many of which were already highly indebted.

A second event which unfavourably affected expectations was the bankruptcy in May of the important sugar refining firm *Compañía Refinería de Azúcar de Viña del Mar (CRAV)*, considered till then as one of the soundest enterprises in the country. An even more serious feature than the loss of US\$ 75 million caused by this bankruptcy to the creditor banks was the fact that it adversely affected the image of responsibility and efficiency enjoyed at that time by the Chilean banking sector abroad, since it was revealed that part of the banks' loans, instead of being used to finance CRAV's industrial operations, had been employed in risky speculative buying of sugar on the futures markets. In view of this, the inflow of foreign capital dropped sharply while the foreign banks took steps to make sure that the Chilean banking system could satisfactorily meet the very large external loans it had received in previous years, which did not carry any State guarantee. Although after a little while the flow of external capital was resumed and even subsequently reached a record level for 1981 as a whole, the CRAV episode highlighted the fact that the Chilean banks, and through them a large part of the productive system, depended very directly on the continuity and stability of these capital movements, so that any interruption or reduction of them could seriously compromise the evolution of domestic economic activity.

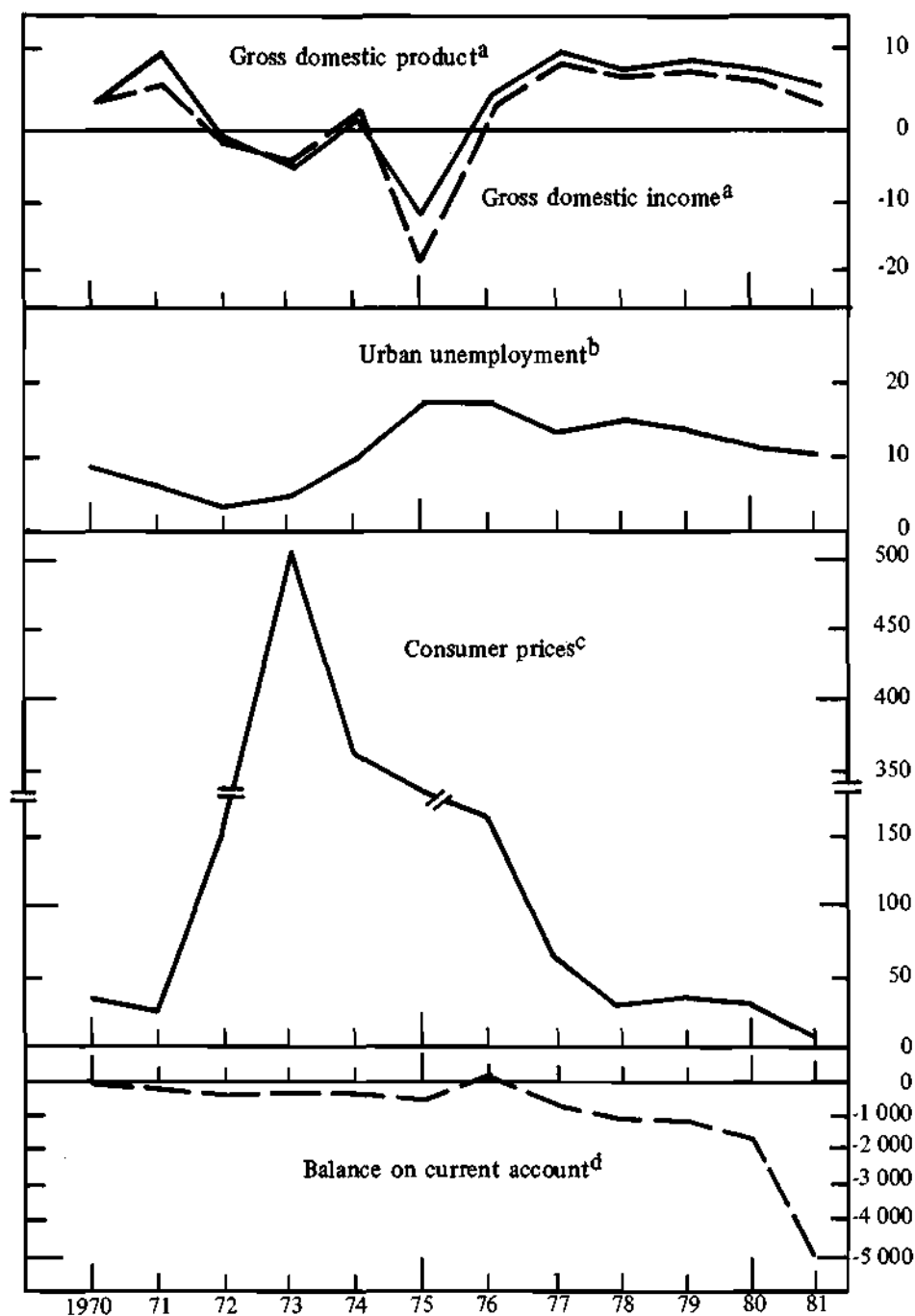
Thirdly, as a result both of the very sharp increase in domestic demand and the low level of the exchange rate, plus the big inflow of foreign loans, imports grew at a staggering rate, especially in the first half of the year. As at the same time the volume of exports stagnated, while the price of copper and other export products went down markedly and net payments of interest went up, the current account deficit rose extraordinarily fast. Thus, within the first half of the year the deficit had already exceeded the very high total registered the year before, and at the end of 1981 it came to close on US\$ 4 900 million, equivalent to nearly 90% of the value of exports of goods and services.

Consequently, it was already obvious in mid-1981 that the current account deficit would represent a serious problem and that it was the reflection of a serious imbalance in the country's external economic relations rather than the mere accounting result of a heavy net inflow of foreign capital. Indeed, by this time it was already beginning to be evident that the maintenance of an abundant net inflow of foreign credit, far from being a symptom of the favourable expectations regarding the future evolution of the economy, had become an indispensable —but not sufficient— condition for preventing the economy from falling into a profound recession.

It was against the background of this already quite gloomy situation that in November the Superintendent of Banks stepped in to take control of eight financial establishments, among them four banks whose loans represented around 25% of the total private bank credit in national currency. This intervention was stated to be justified by the fact that the weakness of the financial situation of these establishments raised fears that they would go bankrupt and cause a possible run on the banks. In order to avoid this happening, the Central Bank guaranteed the deposits by both persons and enterprises and the loans which the eight financial establishments in question had received from foreign banks.

The cost of this crisis was considerable. To start with, the Central Bank had to use up approximately US\$ 600 million to settle the problem. Even more important, however, was the fact that this crisis revealed the unsound commercial practices of certain Chilean banks, among

Figure 1
CHILE: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAnnual average rate for Greater Santiago.

^cPercentage variation December - December.

^dMillions of dollars.

them the practices of concentrating on loans to enterprises belonging or linked to the same economic group which owned the bank, and granting loans without sufficient guarantees. Partly because of these practices and partly because of the unusually high financial costs caused by the high real interest rates, the bad debts *recognized* by the banks doubled during 1981, and at the end of the year amounted to almost 30% of their capital and reserves. Finally, although the decision of the Central Bank to cover the debts of the financial establishments taken over—which were not guaranteed by the State—restored the confidence of foreign banks to some extent, the latter nevertheless changed their attitude to Chilean private banks, and this change helped to reduce the inflow of capital in the final months of the year, so that in the last quarter the international reserves went down for the first time since 1975.

To sum up, although on the whole 1981 showed positive results in some of the main indicators—the product grew by over 5%, inflation dropped to less than 10% (the lowest level in the last 20 years), and the average rate of unemployment went down to its lowest level since 1974—these figures, except in the case of inflation, were the result of the advances made in the first six months of the year, since from mid-year onwards the trends in economic activity were abruptly reversed. Thus, the proportion of unemployed in Greater Santiago, which had gone down steadily from 16.5% in March 1979 to 9% in June 1981, rose to 10.5% in September and 13.5% in December. At the same time, as is clearly shown in table 2, there was a dramatic fall in issues of import permits for capital goods and construction permits. These changes were also accompanied by a drop of almost 8% in the value of exports (the first since 1975), a drastic deterioration in the terms of trade (which dropped to their lowest level for over half a century), and an increase of the order of 60% in net external indebtedness.

Thus, the year closed with a highly unfavourable state of affairs characterized by the stagnation of economic activity, a significant rise in unemployment, an appreciable level of external imbalance, and a severe crisis in the financial system.

2. Trends in economic activity

(a) *Total supply and demand*

During 1981, the total supply of goods and services grew sharply for the fourth year running. Thus, after having recovered in 1977 from the enormous decline suffered in 1975, it grew at an average rate of 8.8% in the following three years and expanded by 9% in 1981 (see table 2).

As had already happened in the previous four years, but this time much more markedly, the most dynamic component in supply was the volume of imports, whose growth rate (31%) was six times that of the product. The exceptional growth in the volume of external purchases was also reflected in the substantial further increase in the import coefficient—which thus reached its highest level since the war—and still more so in the astoundingly high level of the marginal propensity to import. Thus, in 1981 the increase in absolute terms in the volume of imports was almost equal to the gross domestic product and was equivalent to half of total domestic demand.

Domestic demand, for its part, also registered a notable increase of nearly 11%, which was above the already high rates registered in the previous three years and was only below the level of 13.5% recorded in 1977, which was the year when the recovery from the 1974-1975 crisis reached its culmination. This increase in domestic demand was concentrated in the first half of the year when—as already noted—the expectations regarding the future evolution of the economy were still very favourable.

The growth of domestic demand was very intense both in the case of investment and of private consumption, with the latter increasing by over 12%, stimulated mainly by the increase in real take-home pay.

Gross fixed capital formation, for its part, which had increased by over 22% in 1980 after having recovered in 1979 from a drop suffered in the period 1975-1976, grew by 15.5% in 1981. This considerable increase took place in spite of the sharp decline in the building of new houses in the second half of the year and the extraordinarily high level of real interest rates throughout the

year. The increase registered gives an idea of the high level of demand in the first part of the year as well as of the important influence of expectations and the changes in them on the evolution of that demand.

Because of the extraordinarily severe drop suffered by capital formation during the crisis of the mid-1970s, however, and in spite of its rapid growth over the last four years, the coefficient of gross fixed investment was only just over 14% and still did not recover the level which it had had at the end of the 1960s.¹ Moreover, the increase in investment was accompanied in 1981 by a considerable drop in national saving, which went down by around 40%, so that it financed only a little over one-third of the gross capital formation: a proportion equivalent to only a little over half of that registered the year before.²

(b) *Evolution of the main sectors*

As in the previous four years, the growth rate of the sectors producing internationally tradeable goods (agriculture, fisheries, mining and manufacturing) was lower in 1981 than that of activities producing non-tradeable goods and services. The joint product of the latter increased by almost 7%, due above all to the vigorous growth of construction. In contrast, the growth of the sectors producing tradeable goods did not even amount to 3%, so that their share in the total product went down to the lowest level registered since at least 1960. There was a particularly marked decline in the growth rate of manufacturing, which, after expanding at a rate of almost 8% in 1979 and over 6% in 1980, grew by only 2.6% in 1981 (see table 3).

Table 2
CHILE: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	12 582	13 552	14 776	111.7	121.0	9.9	7.7	9.0
Gross domestic product at market prices	10 785	11 598	12 212	100.0	100.0	8.3	7.5	5.3
Imports of goods and services ^b	1 797	1 954	2 564	11.7	21.0	20.6	8.7	31.1
Total demand	12 582	13 552	14 776	111.7	121.0	9.9	7.7	9.0
Domestic demand	9 859	10 550	11 675	98.0	95.6	6.8	7.0	10.7
Gross domestic investment	1 489	1 952	2 145	14.6	17.6	29.1	31.1	9.9
Gross fixed investment	1 237	1 514	1 749	13.6	14.3	16.9	22.4	15.5
Construction	623	768	...	8.6	...	18.8	23.3	...
Machinery and equipment	614	746	...	5.0	...	15.0	21.6	...
Changes in stocks	252	438	396	1.0	3.3	...	...	...
Total consumption	8 370	8 598	9 530	83.4	78.0	3.7	2.7	10.8
General government	1 664	1 566	1 634	13.3	13.3	9.1	-5.9	4.3
Private	6 706	7 032	7 896	70.1	64.7	2.4	4.9	12.3
Exports of goods and services ^b	2 723	3 002	3 101	13.7	25.4	22.5	10.3	3.3

Source: ECLA, on the basis of data supplied by the Central Bank of Chile.

^a Preliminary figures.

^b The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for the purpose.

¹ The figure quoted comes from figures on gross fixed investment expressed in dollars at 1970 prices. It should be noted, however, that according to the new national accounts prepared by the Central Bank for the period 1960-1980, in which the series at constant values are expressed in 1977 pesos, the investment coefficients are considerably higher. According to this source, gross fixed capital formation represented 19.5% of the gross domestic product in 1981. Nevertheless, even in this series this coefficient was slightly lower in that year than in the period 1968-1970. See Banco Central de Chile, *Cuentas Nacionales de Chile, 1960-1980*, Santiago, Chile, tables 8 and 44.

² See Banco Central, *Cuentas Nacionales de Chile, op. cit.*, table 44, p. 118.

Table 3

CHILE: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	9 642	10 369	10 919	100.0	100.0	8.3	7.5	5.3
Goods	4 312	4 613	4 805	48.3	43.9	8.0	7.0	4.1
Agriculture, hunting, forestry and fisheries	718	734	756	6.7	6.9	6.2	2.2	3.0
Mining and quarrying	1 069	1 132	1 173	9.6	10.7	5.4	5.9	3.6
Manufacturing	2 188	2 323	2 383	26.8	21.8	7.9	6.2	2.6
Construction	337	424	493	5.2	4.5	23.8	25.7	16.2
Basic services	946	1 038	1 089	8.5	10.0	8.4	9.8	4.9
Electricity, gas and water	249	263	273	2.1	2.5	6.8	5.9	3.5
Transport, storage and communications	697	775	816	6.4	7.5	9.0	11.1	5.4
Other services	4 490	4 822	5 013	41.8	45.8	8.4	7.4	4.0
Wholesale and retail trade restaurants and hotels ^c	1 343	1 488	1 573	13.8	14.4	11.0	10.8	5.7
Financial institutions, insurance, real estate and business services	1 342	1 518	1 608	10.6	14.7	14.6	13.1	5.9
Ownership of dwellings	522	527	537	5.3	4.9	0.5	1.0	1.7
Community, social and personal services	1 805	1 816	1 832	17.4	16.7	2.5	0.6	0.9
Government services	632	612	602	6.0	5.5	-1.2	-3.3	-1.6
Less: Imputed bank services	411	574	650	1.6	6.0	45.5	39.6	13.2
Plus: Import taxes	377	462	573	3.0	5.3	19.1	22.4	24.2

Source: ECLA, on the basis of figures supplied by the Central Bank of Chile.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cExcluding restaurants and hotels.

Thus, paradoxically, since the inception of the policy of greater trade openness to the exterior in the mid-1970s, the activities which have grown most have been producing non-tradeable goods and services, whereas the share in the total product of the sectors producing exportable goods (agriculture, mining and fisheries), while making a recovery from the very low levels recorded between 1971 and 1973, was still somewhat lower in the period 1978-1981 than it had been in the 1960s.

(i) *Agriculture.* After recovering in 1979 from the 5% decline suffered the previous year and growing by almost 2% in 1980, the agricultural product increased by 2.2% in 1981.³ As in the previous year, this increase was due principally to the expansion in livestock and fruit production and took place in spite of the decline registered yet again in the harvests of most of the traditional crops. The value of the output of the latter at constant prices, which had already gone down by close to 10% in 1980, went down by almost 4% in 1981. In the latter year, however, in contrast with what happened in 1980, when the smaller harvests were due fundamentally to the marked and almost generalized drop in yields, the primary cause of the 1981 decline was the reduction in the area cultivated. This decreased by almost 13%, mainly because of the smaller areas sown in the case of most of the cereals and some pulses and the drastic reduction in the area sown with sunflowers and rape (see table 4).

³These rates are different from those given in table 3 because in the latter "agriculture" includes fisheries, whose product increased by 14.4% in 1979, 7.5% in 1980 and 13.7% in 1981.

Because of the contraction in the area sown and, to a lesser extent, the drop in yields, there was a very sharp drop in the harvests of all cereals except rice and maize. This drop was particularly acute in the case of wheat, output of which was the lowest for over half a century.⁴ The drops in production were even more pronounced in the case of sunflowers and rape —products whose cultivation was discouraged by the considerable drop in 1980 in the world prices of edible oils— and also in the case of all pulses except beans.

The harvest of the latter item registered a spectacular increase of 64%, attributable almost entirely to the improved yields, as a result of which a record output was achieved. The same occurred in the case of maize, the output of which increased by 28% and thus exceeded half a million tons for the first time. During the year, there was also a considerable increase in the output

Table 4

CHILE: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Production of the 14 traditional crops									
Value ^b	148.6	135.5	150.2	135.7	130.4	-25.4	17.5	-9.7	-3.9
Volume ^c									
Wheat	1 306.9	1 002.4	995.1	966.0	686.0	-26.8	11.5	-2.9	-29.0
Oats	110.5	131.1	150.0	172.6	130.7	-25.1	62.2	14.9	-24.3
Barley	97.4	120.6	112.1	105.0	91.4	-12.3	-10.7	-6.3	-13.0
Rye	10.8	11.1	9.0	10.4	9.2	-34.1	-16.7	15.6	-11.5
Rice	76.2	76.3	181.2	95.4	99.7	-12.7	72.9	-47.4	4.5
Maize	239.1	329.0	489.3	405.2	518.2	-27.7	90.5	-17.2	27.9
Potatoes	683.8	737.9	770.5	903.1	1 007.3	5.6	-21.4	17.2	11.5
Beans	65.6	74.1	116.3	84.2	138.2	-0.3	3.7	-27.6	64.1
Lentils	11.2	12.1	31.7	26.8	17.7	-20.6	67.0	-15.5	-34.0
Peas	7.4	6.3	14.6	13.6	11.0	14.6	-7.0	-6.8	-19.1
Chickpeas	5.4	4.9	9.4	11.6	6.4	10.0	70.9	23.4	-44.8
Sugar beet	1 655.1	1 616.7	679.5	450.2	1 460.5	-61.9	-19.1	-33.7	224.4
Rape	70.0	61.4	64.6	73.4	26.9	-37.1	24.2	13.6	-63.4
Sunflower	28.2	17.8	33.3	38.3	7.4	96.1	11.0	15.0	-80.7
Area sown with the 14 traditional crops	1 251	1 248	1 251	1 237	1 079	-7.1	4.7	-1.1	-12.8
Wheat	740	686	561	546	432	-7.7	-3.3	-2.7	-20.9
Oats	73	94	79	92	80	-	-3.3	16.5	-13.0
Barley	47	66	60	49	46	1.6	-6.3	-18.3	-6.1
Rye	8	9	7	8	9	-	-36.4	14.3	12.5
Rice	25	23	47	41	31	-5.2	42.4	-12.8	-24.4
Maize	74	92	130	116	125	-19.0	38.3	-10.8	7.8
Potatoes	72	72	81	89	90	5.8	-11.0	9.9	1.1
Beans	57	68	110	111	118	14.4	-0.9	0.9	6.3
Lentils	17	21	50	53	48	3.2	56.3	6.0	-9.4
Peas	11	9	17	18	18	6.3	-	5.9	-
Chickpeas	11	8	17	21	16	37.5	54.5	23.5	-23.8
Sugar beet	42	42	16	11	37	-62.5	-23.8	-31.3	236.4
Rape	54	45	54	50	24	-37.0	58.8	-7.4	-52.0
Sunflower	20	13	22	32	5	110.0	4.2	45.5	-84.4

Source: National Statistical Institute (INE).

^aPreliminary figures.

^bMillions of pesos at 1974 prices.

^cThousands of tons.

^dThousands of hectares.

⁴The previous lowest harvest, corresponding to 1973, was almost 9% larger than that of 1981. The latter, for its part, was 25% smaller than the 1930 harvest and only half the size of the record harvest achieved in 1971.

Table 5
CHILE: INDICATORS OF FRUIT-GROWING ACTIVITY

	1974	1975	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
	Area planted (hectares)					Growth rates			
Total	63 950	63 885	74 472	82 026	87 781	4.1	5.8	10.1	7.0
Almonds	1 575	1 570	1 940	2 099	2 134	4.8	11.8	8.2	1.7
Cherries	1 010	1 005	1 255	1 376	1 577	3.7	11.1	9.6	14.6
Plums	1 685	1 690	2 046	2 358	2 793	1.1	7.1	15.2	18.4
Apricots	1 620	1 625	1 635	1 639	1 687	-	0.3	0.2	2.9
Peaches	11 050	10 850	8 485	8 527	9 200	-1.7	-6.7	0.5	7.9
Nectarines	3 990	3 990	4 700	4 930	5 380	3.4	4.4	4.9	9.1
Lemons	7 660	7 560	7 405	7 475	7 593	-0.5	-0.6	0.9	1.6
Apples	11 290	11 350	13 585	15 735	16 448	6.3	4.7	15.8	4.5
Quinces	980	980	880	880	930	-3.9	-4.1	-	5.7
Oranges	4 535	4 535	4 880	4 913	5 058	2.1	1.0	0.7	3.0
Walnuts	4 100	4 150	5 335	5 818	6 030	4.3	7.5	9.1	3.6
Olives	3 215	3 215	3 206	3 406	3 456	-0.4	0.6	6.2	1.5
Avocados	4 490	4 500	5 410	6 383	6 883	2.6	9.8	18.0	7.8
Pears	2 600	2 615	2 820	3 031	3 212	1.1	3.7	7.5	6.0
Table grapes	4 150	4 250	10 890	13 456	15 400	21.8	29.6	23.6	14.4
	Production (Thousands of tons)					Growth rates			
Almonds	0.5	0.8	1.1	1.2	1.2	2.9	3.3	10.0	0.2
Cherries	4.9	5.1	5.5	5.3	5.9	11.5	-5.8	-2.9	11.4
Plums	12.6	13.2	16.0	17.0	17.2	0.4	1.0	6.1	1.4
Apricots	14.3	13.9	14.3	13.6	13.0	1.0	-3.9	-5.0	-4.6
Peaches	111.8	115.0	82.7	78.2	71.0	-8.6	-3.3	-5.5	-9.2
Nectarines	30.7	30.8	33.9	36.4	39.7	2.4	5.2	7.2	9.2
Lemons	65.5	69.8	68.3	66.7	64.7	8.4	4.3	-2.4	-3.1
Apples	120.3	125.0	210.0	245.0	298.4	16.7	20.0	16.7	21.7
Quinces	5.3	5.5	7.8	7.9	8.4	2.3	17.1	1.3	6.2
Oranges	46.6	46.9	50.6	49.2	53.8	4.1	-0.4	-2.7	9.4
Walnuts	2.8	3.1	4.9	5.2	5.7	2.5	7.4	6.2	8.7
Olives	10.3	10.4	9.3	11.2	7.2	-0.8	-10.2	21.3	-36.3
Avocados	14.5	14.7	19.4	21.7	25.0	8.7	3.0	12.1	15.2
Pears	32.5	33.8	38.3	39.1	41.5	1.7	0.3	2.2	6.2
Table grapes	58.2	59.1	78.9	85.0	121.7	9.4	4.6	7.8	43.1

Source: Ministry of Agriculture, Agricultural Planning Office (ODEPA).

^aPreliminary figures.

of potatoes —which was only slightly below the 1974 record— while the sugar beet harvest more than trebled. This exceptional increase was encouraged by the considerable rise registered in the world price of sugar at the time of planting sugar beet, which led producers to increase the area sown with this crop by over 230%. Even so, because of the repeated very large decreases which had taken place in the production of sugar beet in the previous three years, its output in 1981 was still one-third lower than in the period 1976-1977, when harvests of over 2.2 million tons were achieved.

As in 1980, the decline in the production of most of the traditional crops contrasted with the progress shown once more by fruit production. Thus, during 1981 there was an increase in the harvest of all the main types of fruit except apricots, peaches, lemons and olives. There were particularly marked increases in the output of table grapes and apples: both crops which enjoy significant comparative advantages and which continue to account for the bulk of the value of fruit exports. Production of table grapes rose by 43%, while that of apples increased by close to 22%, and thanks to these increases and the also considerable rises registered in the previous three years, apple production doubled between 1977 and 1981, while that of table grapes increased by around 75% (see table 5).

At the same time, the area of new fruit plantations continued to expand rapidly, especially those for the production of cherries, plums and table grapes. Nevertheless, the increase of approximately 24 000 hectares in absolute terms in the area of fruit plantations between 1974 and 1981 was only equivalent to a quarter of the drop of 96 000 hectares suffered over the same period of time by the area sown with the 14 traditional crops.

In 1981 there was also faster growth of the stock-raising sector, which contributes about one-third of the total value of agricultural activity. Total meat production, which had increased by 7.5% in 1980, rose by almost 15% in 1981. A decisive influence in this expansion was the increase of close to 14% in cattle slaughtering (which had gone down in an almost uninterrupted manner in the previous five years); the marked expansion recorded once again in the production of poultry meat (with the result that, after having gone down steadily between 1970 and 1977, it has almost trebled over the last six years); and the substantial increase registered for the fifth consecutive year in the production of pig meat (which exceeded for the first time the high level previously reached in the period 1972-1974).¹ The expansion of the livestock farming sector was also aided by the substantial increases registered, as in 1980, in production of milk and eggs (see table 6).

Table 6
CHILE: INDICATORS OF LIVESTOCK PRODUCTION

	1970	1975	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Production of main livestock items ^b									
Beef	176.1	215.5	167.5	162.3	184.6	-4.8	1.6	-3.1	13.7
Poultry meat	61.6	43.8	78.9	102.0	122.0	32.5	34.6	29.3	19.6
Pigmeat	44.4	30.0	42.5	49.7	55.8	17.3	25.6	16.9	12.3
Mutton	22.4	18.1	17.7	15.5	15.6	-6.0	15.7	-12.5	0.9
Milk ^c	895.1	956.1	953.5	1 080.0	1 275.0	-2.7	-2.3	13.3	18.0
Eggs ^d	1 205.8	1 196.8	1 217.0	1 425.0	1 610.3	14.2	4.3	17.1	13.0
Unwashed wool	20.2	18.8	19.6	...	...	1.6	1.6	...	...

Source: Beef, pigmeat and mutton: National Statistical Institute (INE); other livestock items: Agricultural Planning Office (ODEPA).

^aPreliminary figures.

^bThousands of tons.

^cMillions of litres.

^dMillions of units.

Table 7
CHILE: REAFFORESTED AREA

(Thousands of hectares)											
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Total	28.0	31.0	30.3	56.2	82.6	107.7	93.2	79.0	52.2	72.3	92.2
National Corporation (CONAF)	16.6	24.8	27.4	35.2	44.1	54.1	44.6	25.0	0.5	0.2	0.2
Private enterprise	11.4	6.3	2.9	21.1	38.5	53.6	48.6	54.0	51.7	72.1	92.1

Source: National Forestry Corporation (CONAF).

^aPreliminary figures.

¹During this period, the average annual production of pig meat was slightly over 50 000 tons, but this went down very sharply in the following two years, dropping in 1976 to less than 25 000 tons.

Table 8

CHILE: INDICATORS OF FISHERY PRODUCTION

	1970	1975	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^c
Fishery product ^b	24.9	24.5	50.9	54.7	62.2	17.7	14.4	7.5	13.7
Fishing catch ^c	1 181	899	2 560	2 892	3 393	56.2	32.7	13.0	17.3
Fish	1 082	804	2 428	2 700	3 290	50.5	33.9	11.2	21.9
Fresh consumption	62	71	103	75	149	40.3	9.6	-27.2	98.7
Industrial processing	1 020	733	2 325	2 625	3 141	51.1	35.3	12.9	19.7
Shellfish	99	95	132	192	103	1.8	13.8	45.5	-46.4
Fresh consumption	34	33	44	54	47	-	15.8	22.7	-13.0
Industrial processing	65	62	88	138	56	2.6	12.8	56.8	-59.4
Manufacture fishery products	240.6	197.6	671.6	738.0	896.5	42.7	37.8	9.9	21.5
Frozen	7.4	6.9	22.4	13.5	51.2 ^d	18.6	60.0	-39.7	279.3
Canned	11.9	9.0	27.5	38.0	29.5	35.8	22.8	38.2	-22.4
Fishmeal	197.3	155.1	512.6	571.9	688.3	47.0	36.7	11.6	20.4
Fish oil	23.3	25.8	108.9	111.0	127.3	29.0	43.9	1.9	14.7
Other ^e	0.7	0.8	0.2	3.6	0.2	-50.0	-	-	-

Source: Ministry of Agriculture, Crop-farming and Livestock Service (SAG).

^aPreliminary figures.

^bMillions of dollars at 1970 prices.

^cThousands of tons.

^dThousands of tons of finished product.

^eIncludes output of factory ships.

^fIncludes dried, salted, smoked and dehydrated products.

Finally, in 1981 there was an increase of more than 27% in the area of new or replacement timber plantations, another activity which enjoys marked competitive advantages. The area afforested during the year thus once again exceeded 90 000 hectares, which was close to the record areas afforested in the period 1976-1977. Unlike those years, however, when the contributions of the State sector and private enterprise were almost equal, in 1981 almost all the area planted corresponded to the private sector (see table 7).

(ii) *Fisheries*. In 1981 the strong expansion of fishery activity continued for the sixth consecutive year. Thus, after having doubled between 1975 and 1979 and increasing 7.5% in 1980, the fisheries domestic product grew by close to 14% in 1981 (see table 8).

As in previous years, the main factors responsible for this growth were fishing for industrial processing and the production of fishmeal. These two activities increased by around 20%, with the result that both have doubled their production over the last three years. The catching of fish for fresh consumption increased even more rapidly, since it almost doubled and thus more than made up for the decline in the previous year. In contrast, there was a sharp decline in 1981 in the shellfish catch and canning.

(iii) *Mining*. After growing at an average rate of rather more than 5.5% in the previous two years, the mining product rose by 3.6% in 1981, which can be considered a relatively satisfactory result bearing in mind the decline suffered in 1981 by the international prices of most minerals. Indeed, with the exception of fisheries, mining was the tradeable goods-producing activity which grew most rapidly in 1981, due partly to the smaller relative incidence of variable costs in its total costs and the lower sensitivity of mining to situations of exchange rate lags such as that experienced by the economy in 1981.

As in the previous three years, the mining product grew in spite of the fact that copper production —the most important branch of the sector— was only sluggish, growing by only a little over 1% after having almost stagnated between 1977 and 1980 (see table 9). As had already happened in the latter year, the increase in copper production was due entirely to the growth of

medium and small-scale mining activity, the output of which increased by almost 15%, mainly because of the beginning of operations at the Compañía Minera Pudahuel mine, located near Santiago. In contrast, the copper production of the large-scale mining industry went down slightly for the third time in the last four years and was only the same as the output achieved in 1977. This stagnation was basically the result of the low level of investments made during this period in the mines belonging to the Chilean Copper Corporation.

During 1981 the production of iron ore and nitrates likewise virtually stagnated. The nitrates industry was also affected by the flagging growth rate of iodine extraction —which had increased rapidly in the previous five years— and the drop of almost 17% in the production of sodium sulphate. The iron ore industry, for its part, which had recovered to some extent in 1979 and 1980, stagnated in 1981 as a result of the opposing trends registered by iron ore mining —which decreased by close to 4%— and the production of pellets, which grew by almost 3%, although even so this rate was well below that achieved in the previous two years.

In contrast with the evolution of these branches of mining, 1981 saw the continuation for the third consecutive year of the vigorous growth of gold and silver production and petroleum extraction, while the output of molybdenum and coal increased considerably.

Coal production, which had already increased markedly in 1980, grew by a little over 14% in 1981. Nevertheless, these increases represented only a partial recovery from the prolonged

Table 9

CHILE: INDICATORS OF MINING PRODUCTION

	Production					Growth rates			
	1970	1975	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Mining sector product ^b	802	866	1 069	1 132	1 173	1.6	5.4	5.9	3.6
Copper ^c	692	828	1 061	1 068	1 081	-2.0	2.5	0.8	1.2
Large-scale mining	541	683	910	905	894	-1.8	3.8	-0.5	-1.2
Medium and small-scale mining	151	146	151	163	187	-3.7	-4.4	8.6	14.7
Iron ore ^c									
Ore	11 265	11 007	8 225	8 835	8 514	-2.6	5.3	7.4	-3.6
Pellets	...	...	2 816	3 179	3 266	...	46.4	12.9	2.8
Coal ^d	1 382	1 460	957	1 024	1 169	-13.3	-16.6	11.6	14.2
Nitrates ^d	669	726	621	620	624	-4.8	17.3	-0.2	-0.6
Iodine ^e	2 250	1 962	2 410	2 601	2 687	3.6	25.4	7.9	3.3
Sodium sulphate ^e			68 700	70 100	58 320	44.4	56.9	2.0	-16.8
Petroleum ^f	1 977	1 423	1 202	1 933	2 405	-17.9	29.4	60.8	24.4
Molybdenum ^e	5 701	9 091	13 560	13 668	15 360	20.8	2.8	0.8	12.4
Gold ^g	1 623	3 997	3 465	6 836	11 692	-12.1	8.9	97.3	71.0
Silver ^g	76	194	272	299	330	-3.0	6.7	9.9	10.4

Source: Copper: Chilean Copper Corporation; State Department of Mines; iron ore: National Statistical Institute; coal: National Coal Corporation; Nitrates, iodine and sodium sulphate: Chilean Chemical Corporation; petroleum: National Petroleum Corporation; Molybdenum: State Department of Mines and National Statistical Institute; gold and silver: National Statistical Institute (INE).

^aPreliminary figures.

^bMillions of dollars at 1970 prices.

^cThousands of tons.

^dThousands of gross tons.

^eTons.

^fThousands of cubic metres.

^gKilogrammes fine.

Table 10

CHILE: INDICATORS OF MANUFACTURING

	Indexes (1969 = 100)					Growth rates				
	1970	1975	1979	1980	1981 ^a	1975	1978	1979	1980	1981 ^a
Industrial product ^b	2 073	1 613	2 188	2 323	2 383	-25.5	9.3	7.9	6.2	2.6
Industrial output INE	99.7	71.9	104.1	110.5	110.5	-28.1	7.5	7.8	6.0	-
SOFOFA	103.5	85.0	124.2	129.2	129.3	-23.5	10.2	8.2	4.0	0.1
Mass consumption goods	104.5	84.6	119.7	120.4	119.0	-18.9	7.5	6.5	0.3	-0.9
Consumer durable	115.6	88.1	95.1	122.1	134.8	-28.9	12.0	4.6	28.4	10.4
Transport equipment	100.0	53.6	91.6	109.7	94.6	-26.4	39.8	-0.3	19.8	-13.8
Intermediate products for industry	100.6	113.1	153.3	155.2	154.0	-14.9	3.5	6.5	1.2	-0.8
Intermediate products for construction	104.1	65.1	135.4	145.7	142.8	-42.6	18.2	18.3	7.6	-2.0
Miscellaneous manufactures	97.2	67.4	106.2	108.0	121.2	-36.2	-2.1	15.1	1.7	12.2
Industrial sales	99.7	85.9	122.8	128.6	122.9	-20.4	11.7	8.9	4.7	-0.5

Source: Industrial product: National Planning Office (ODEPLAN); industrial output: National Statistical Institute (INE) and Sociedad de Fomento Fabril (SOFOFA); industrial sales: Sociedad de Fomento Fabril.

^aPreliminary figures.

^bMillions of dollars at 1970 prices.

process of contraction suffered by the coal industry for about the last 30 years, which was sharply accentuated in 1978 and 1979.⁶

In contrast, the 12% increase in molybdenum production represented a resumption of the strong growth process begun in 1974, which only slackened in 1979 and, above all, in 1980. The substantial increases in the extraction of silver, and especially gold, likewise represented the continuation of relatively recent but very intensive processes of expansion which were stimulated by the very big increases in the international prices of these metals between 1977 and 1980. Thus, both gold and silver mining achieved record production levels, and in fact gold extraction in 1981 was well over three times that achieved only two years before, with its value exceeding US\$ 100 million for the first time.⁷

As in the previous two years, however, the most significant advance achieved in the mining sector was the further considerable increase in petroleum production, which rose by over 24% after having grown by 60% in 1980 and almost 30% in 1979. As a result of this, petroleum extraction has increased by a factor of 2.4 in the space of only three years and the proportion of the total demand for crude supplied by national petroleum production has risen from 20% to 45%.

(iv) *Manufacturing.* In 1981, the manufacturing sector declined into almost complete stagnation, for the growth rate of the industrial product, which was very high (8%) between 1976 and 1979 (when industry recovered the level it had had before its sharp contraction in 1975) and which was still over 6% in 1980, dropped to only 2.6%. The loss of dynamism was even more marked according to the indexes of industrial production prepared by the National Statistical Institute and the Chilean Chamber of Industry, the Sociedad de Fomento Fabril, for after registering increases of 6% and 4% respectively in 1980, these showed no growth whatever in 1981 (see table 10).

The stagnation of industrial production as a whole, however, concealed the different performances of the various manufacturing subsectors in 1981. Thus, while the production of items

⁶Between 1950 and 1981, the highest production of coal was in 1952, when almost 2.5 million tons were mined. Subsequently, production declined almost without interruption, dropping below 2 million tons per year from 1958 onwards and sinking to less than 1.5 million tons since 1976.

⁷The drop of about one-third in the international price of gold, however, absorbed at least half the higher income that should have been received as a result of the increased production.

of everyday consumption, intermediate products for industry and intermediate goods for construction declined slightly and that of transport equipment dropped by nearly 14%, the output of consumer durables rose by over 10% and that of miscellaneous manufactured articles by over 12%.

The main unevenness shown by manufacturing in 1981, however, was its varying evolution over the course of the year. Thus, during the first half of the year industrial production continued to increase at a rate of rather more than 3%, but this growth rate slackened markedly in the third quarter and was drastically reversed in the last three months of the year, when industrial production fell by 8%.

Although this performance reflected to some extent the effects of the greater competition from imported goods, its fundamental cause was the sharp change in expectations which took place, as already noted, towards the middle of 1981.

Since the freezing of the exchange rate at the end of June 1979, the industrial sector had been suffering a gradual loss of competitiveness *vis-a-vis* imported manufactures, for because the rate of Chilean inflation was much higher than the rise in international prices during the period 1979-1981, the costs of domestic production expressed in dollars rose considerably more than those of foreign products. Although by the end of 1981 domestic inflation had come into line with world inflation, so that industry was no longer losing competitiveness, the accumulated loss between mid-1979 and the first half of 1981 meant that the prices of foreign goods were much more favourable than before the freezing of the exchange rate. This is why the very marked increase in domestic spending in the first half of 1981 did not help to increase significantly the sales of domestic manufactures. In contrast, as already noted, the marginal propensity to import rose enormously, leading to considerable increases in imports of industrial goods, among them some goods for which there was abundant unused domestic production capacity. Thus, the production of some categories of manufactures such as textiles, clothing and footwear stagnated at similar levels to those registered during the 1975 slump, and it is estimated that they probably lost about one-third of the market through competition from similar imported goods. Indeed, 13 categories of industrial production which in 1969 had had a share of 38% of total industrial production registered levels of output below those of 1979. Moreover, this underutilized capacity does not seem to have been due to lack of demand, as was the case in 1975, but rather to loss of competitiveness *vis-a-vis* imports.

However, it was apparently the turnaround of expectations, and consequently of spending, which was the primary cause of the drop in sales and production in the final months of the year. Perhaps the most enlightening example of this change was that which took place in the case of intermediate products for construction. During the first half of the year, the output of these grew at an annual rate of over 10%, but because of the rise in interest rates and the consequent stagnation of sales of buildings and dwellings, it went down by 3.5% in the third quarter and by over 20% in the last quarter. During this latter period there was also a slump in the production of transport equipment — which fell to only half the level of the same period of the previous year — while there was a slight decline in the production of consumer durables, which had expanded rapidly up to September.

(v) *Construction.* The sector which reflected most clearly both the crisis of the mid-1970s and the subsequent economic recovery was construction. The drastic reduction in expenditure on public works and the drop in personal income which accompanied the stabilization policy in the period 1974-1976 reduced construction activity to a little over half what it had been at the beginning of the decade, while in contrast construction grew during the period of recovery almost as fast as it had fallen during the crisis. Thus, by the end of 1980 most of the sectoral indicators had returned to their levels of 1971, when the construction sector product was a record.

This recovery took place in spite of three important limitations: (a) the sharp reduction in the role played by the public sector in housing construction; (b) the halving of the share of public works investment in the domestic product,⁸ and (c) the very high real interest rates, which even in

⁸This share dropped from an average of approximately 2.5% in the period 1971-1974 to an average of 1.25% in the period 1977-1980.

1980, when the real cost of mortgage loans reached its lowest point (12% per year), stood at abnormally high levels by any standard of historical or international comparison.

There were various reasons why the construction firms looked forward to a high level of activity in 1980: (a) the general view at the end of 1980 was that the economy would continue to grow rapidly; (b) it was felt that there was still a large demand for housing; (c) the Government had announced a housing construction target for the next 8 years which was more than double the past average, and (d) it was expected that real interest rates would continue to go down. Consequently, the purchase of building land was intensified and its prices rose at a dizzy rate, while there was also an increase in imports of machinery and equipment for construction.

The growth rate of the sector was indeed very high. Thus, the construction product increased by over 16% and, like the area of housing and industrial and commercial buildings constructed, exceeded the previous historical maximum levels (see table 11).

Construction firms were severely affected, however, by the behaviour of real interest rates, which, instead of going down as expected, rose sharply from the beginning of the year onwards. At first it was assumed that this increase would only be temporary, but it persisted and real interest rates fluctuated around 3% per month. As a result, expectations changed markedly, and in the second half of the year there was a very sharp slump in the number of new projects begun, to such a point that in the last quarter the number of housing starts was less than a quarter the level of the

Table 11

CHILE: MAIN INDICATORS OF CONSTRUCTION

	1970	1975	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Construction product ^b	455	305	337	424	493	8.0	23.8	25.7	16.2
Building materials									
Deliveries of cement for the domestic market ^c	30.8	23.1	30.7	35.4	43.5	11.6	16.7	15.3	22.9
Deliveries of round bars for construction ^d	86.1	53.9	77.7	107.6	83.8	3.5	35.1	38.5	-22.1
Index of real sales of intermediate goods for construction (1969 = 100)	101.4	116.6	144.9	151.2	148.4	21.2	31.3	4.4	-1.9
Building									
Total area (thousands of m ²)	2 272	1 676	3 136	4 297	5 118	12.5	35.7	37.0	19.1
Public sector ^e	498	322	161	265	183	-53.4	-57.4	64.6	-30.9
Private sector ^f	1 774	1 354	2 975	4 032	4 935	55.4	53.9	35.5	22.4
Residential	1 570	1 256	2 194	3 058	3 705	-1.3	48.8	39.4	21.2
Non-residential	702	420	942	1 239	1 413	49.2	12.5	31.5	14.0
Total number of dwellings	21 344	15 845	33 762	43 310	49 802	-4.3	65.3	28.3	15.0
Public sector ^e	3 552	3 105	282	1 589	534	-74.3	-90.8	463.5	-66.4
Private sector ^f	17 792	12 470	33 480	41 721	49 268	83.7	92.7	24.6	18.1

Source: Construction product: ECLA, on the basis of data provided by the National Planning Office; building materials: Instituto Chileno del Cemento, Instituto Chileno del Acero, Sociedad de Fomento Fabril; building: National Statistical Institute (INE).

^aPreliminary figures.

^bMillions of dollars at 1970 prices.

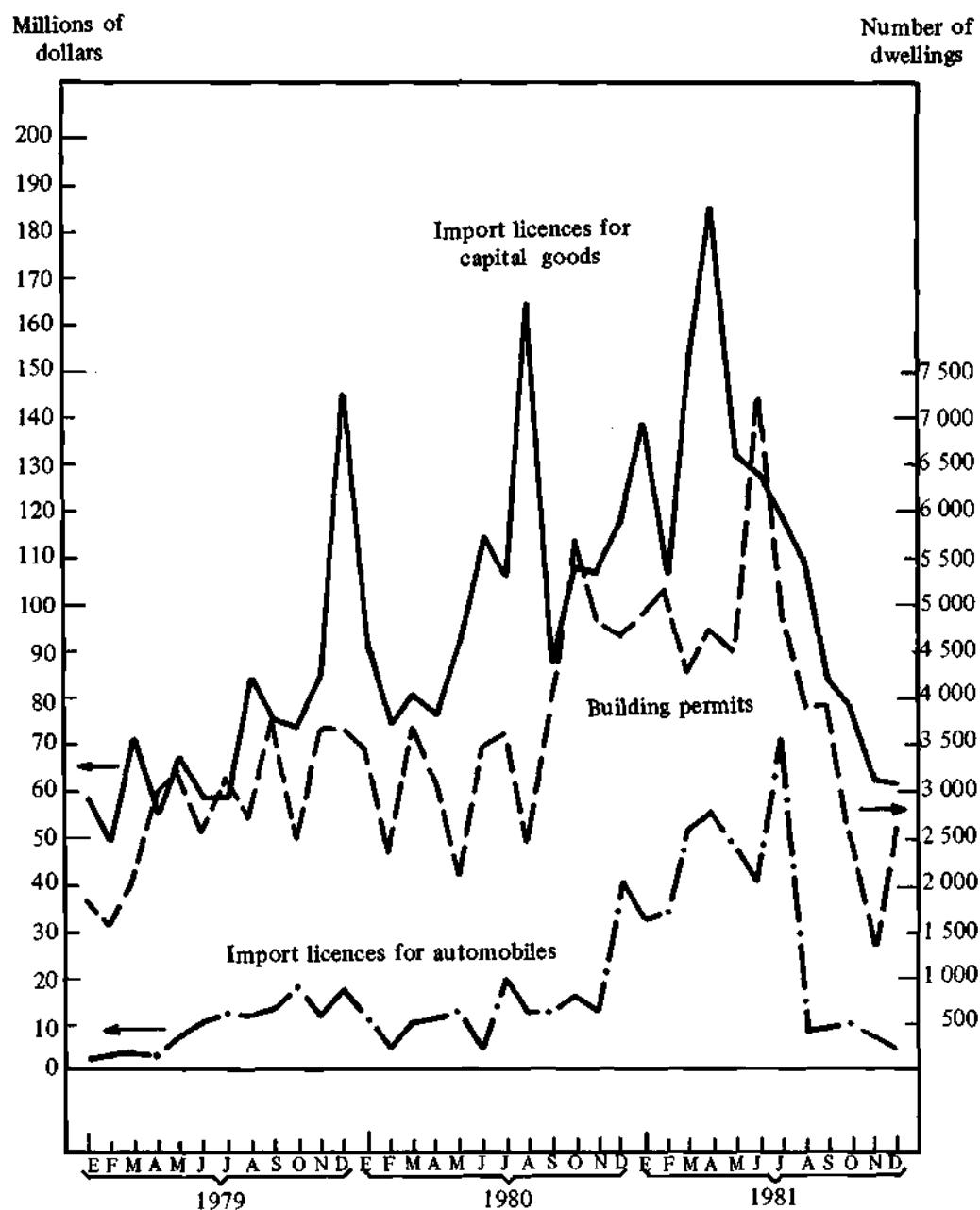
^cMillions of bags.

^dThousands of tons.

^eBuildings on which construction work had been started in 80 communes, except for 1970, when figures refer to only 60 communes.

^fPermits approved.

Figure 2
CHILE: IMPORT LICENSES FOR CAPITAL GOODS AND AUTOMOBILES,
AND BUILDING PERMITS ISSUED



Source: Central Bank of Chile and National Statistical Institute.

first two quarters of the year (see figure 2). As a result of this drastic change, the rate of unemployment in the construction sector, which had been going down almost without interruption in Greater Santiago from 33% in March 1979 to 9% in June 1981, rose abruptly and trebled between that month and December.

The reason why this radical turnabout in construction trends was not more clearly reflected in the overall figures for the year was due partly to the fact that work continued on many buildings which had already been begun, since it seemed more appropriate to complete them than to leave them unfinished. This, together with the very sharp drop in sales, caused an increase in the demand for credit by the construction firms, which hoped thus to be able to hold out until better times returned. As certain subsequent events were to show, however, this growing indebtedness at such high real interest rates was bound in the long run to have an adverse effect not only on the solvency of the construction firms, but also that of the banking institutions which financed them.

(c) *Developments in the employment situation*

After the profound decline which it suffered during the 1974-1976 crisis, productive employment had been recovering very slowly. Thus, over the six-year period 1975-1980, the number of employed persons other than those participating in the Minimum Employment Plan (PEM) grew by less than 6%, i.e., less than 1% per year, while the labour force increased at an average rate of around 2.5%. Even between 1977 and 1980, when the gross domestic product rose at an average rate of over 8% per year, employment (excluding the PEM) expanded by only a little over 3.6% per year. Thus, even in these conditions of rapid economic expansion, the effective rate of unemployment (i.e., including the PEM) went down only marginally (see table 12).

Nevertheless, thanks in particular to the construction boom, the rate of unemployment had begun to go down in 1980. Thus, in Greater Santiago the proportion of persons without work was on average almost 2 percentage points lower during that year than in 1979, and as only half a percentage point of this was attributable to the increase of the PEM, the effective rate of unemployment in the capital registered its most significant decline since the beginning of the recovery period (see tables 13 and 14).

Table 12

CHILE: EMPLOYMENT, UNEMPLOYMENT AND THE
MINIMUM EMPLOYMENT PLAN (PEM)

	Thousands of persons					Percentage of the labour force		
	Labour force	Employed	Unemployed	Minimum Employment Plan	Employed less PEM	Unemployed (3)/(1)	Minimum Employment Plan (4)/(1)	Unemployed + PEM (5)+(6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1974	3 067	2 785	282		2 785	9.2		9.2
1975	3 112	2 661	451	73	2 588	14.5	2.4	16.8
1976	3 164	2 708	456	158	2 550	14.4	5.0	19.4
1977	3 221	2 810	411	188	2 622	12.8	5.8	18.6
1978	3 374	2 915	459	146	2 769	13.6	4.3	17.9
1979	3 481	2 999	482	134	2 865	13.9	3.9	17.7
1980	3 568	3 140	428	191	2 949	12.0	5.4	17.4
1981	3 641	3 247	393	176	3 071	10.8	4.8	15.6

Source: For labour force, employed and unemployed: ODEPLAN estimates based on data of the National Statistical Institute, presented in *Exposición sobre el Estado de la Hacienda Pública*, Ministry of Finance, Santiago, October 1982. For Minimum Employment Plan, data of the National Statistical Institute (INE).

Table 13

CHILE: UNEMPLOYMENT IN GREATER SANTIAGO

(Percentages)

	Annual averages										
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Total rate of unemployment											
Department of Economics of the University of Chile	5.5	3.8	4.6	9.7	16.2	16.8	13.2	14.0	13.6	11.8	11.1
National Statistical Institute	4.3	3.2	4.8	9.7	15.0	17.0	13.9	13.8	13.4	11.8	9.0
Overall rate of unemployment among the established labour force (i.e., excluding persons seeking work for the first time)	4.2	2.8	3.2	6.7	11.9	12.6	9.9	10.5	10.1	8.7	8.5
Manufacturing	4.8	3.3	3.5	7.6	14.8	15.5	11.8	11.8	13.1	11.9	11.8
Construction	16.0	8.2	6.9	13.0	31.6	34.1	28.7	23.5	24.5	16.5	16.4
Commerce	2.8	2.2	3.1	5.3	9.1	9.7	7.4	8.8	8.3	6.4	5.9
Government and financial services	1.3	0.5	2.0	3.3	5.8	6.5	6.0	7.5	5.4	5.8	5.9
Personal and household services	3.0	1.9	2.6	7.5	12.5	13.7	8.5	10.8	8.9	8.4	7.0
Community and social services	3.1	2.4	2.0	4.3	6.1	6.0	6.8	7.0	5.9	5.6	4.8
Non-manual workers	2.7	2.2	2.4	4.5	7.4	8.3	6.7	8.0	7.5	5.3	6.3
Manual workers	7.4	4.7	5.2	10.9	20.6	20.7	16.3	16.5	16.0	14.5	14.4
Own-account workers	2.0	0.9	2.0	4.7	8.4	8.5	5.7	6.0	6.1	4.5	3.1

Source: Department of Economics of the University of Chile and National Statistical Institute (INE).

Table 14

CHILE: MINIMUM EMPLOYMENT PLAN

	1975	1976	1977	1978	1979	1980	1981
Number of participants ^a							
Total	72.7	157.8	187.7	145.8	133.9	190.7	175.6
Metropolitan Region	19.6	34.9	36.4	29.0	21.8	28.1	23.2
Rest of country	53.1	122.9	151.2	116.8	112.1	162.6	152.4
Monthly allowance paid							
Nominal ^b	153	461	704	834	992	1 275	1 300
Real ^c	1 863	1 690	1 209	954	831	791	674

Source: National Statistical Institute (INE).

^aThousands.^bPesos.^cPesos at December 1978 prices, on the basis of the corrected consumer price index given in table 23 below.

The improvement in the employment situation continued during the first half of 1981, when the total number of participants in the PEM went down markedly and the rate of unemployment in Greater Santiago dropped below 10% for the first time since December 1974.

This tendency was abruptly reversed, however, in the second part of the year as a result of the sharp drops in spending and production. Thus, in the capital the proportion of persons without work rose from 9% in June to 10.5% in September and 13.5% in December (see figure 3). The change was also very noticeable in the other urban centres of the country, in all of which, except those of the first four (northernmost) regions, the rates of unemployment in September were well over those of March and were, without exception, higher than in Santiago (see table 15).

Thus, even though on average the unemployment rates (regardless of whether or not the members of the PEM are included in the calculations) in 1981 were the lowest since 1974, the year nevertheless ended with a dramatic employment situation. In December 1981 the number of unemployed in Greater Santiago came to over 160 000: the highest figure registered since March 1976. The unemployment rate in manufacturing was 17%, while that in construction was 27%, and altogether one out of every five workers was without a job. Moreover, around 170 000 persons were registered in the PEM, but the purchasing power of the allowance paid by this programme suffered a further drop of 15% in 1981, so that in real terms it was equivalent to only 36% of what it had been in 1975 (see table 14).

3. The external sector

(a) *Main trends*

One of the most serious doubts which arose at the beginning of 1981 regarding the future evolution of the Chilean economy centered on its external imbalance, particularly as the previous year the current account deficit had increased by 68% and had for the first time exceeded US\$ 2 billion.

For many observers, this was due to the "exchange rate lag" which had begun to be generated since the freezing of the exchange rate at 39 pesos per dollar in mid-1979. This measure actually symbolized a wager on the successful achievement of the central objectives which it was aimed to reach through such exchange policy, ranging from the achievement of a reasonable degree of external balance (elimination of balance-of-payments problems) to the attainment of greater progress in one of the indicators of the domestic balance (stability of price levels). The exchange rate had in fact been used between 1974 and 1978 as the main instrument for securing balance-of-payments equilibrium, and this objective was largely achieved, thanks mainly to the extraordinary growth of non-traditional exports. From mid-1979 onwards, however, exchange policy had been used as a direct means of facilitating the reduction of the rate of inflation. According to this new approach, the external balance would be achieved in the short term through the net inflow of capital and, in the long term, through the depreciation (or appreciation) of the currency resulting from the differences between domestic and external inflation rates. In view of the fact that, after the fixing of the exchange rate, the rate of inflation did not adjust immediately to this but, on the contrary, rose immediately after the devaluation and slackened only gradually in the course of 1980, this led to a significant reduction in the real exchange rate and, ultimately, in the relative prices of tradeable goods (see table 16 and figure 4). The consequent deterioration of the international competitiveness of domestic products was one of the main reasons for the accentuation in the current account deficit during that year.

The supporters of the exchange policy, however, argued that this deficit was not a major problem, since it had been more than financed by the net inflow of capital, which had amounted to over US\$ 3 300 million in 1980 and helped to produce a considerable surplus on the global balance of payments.

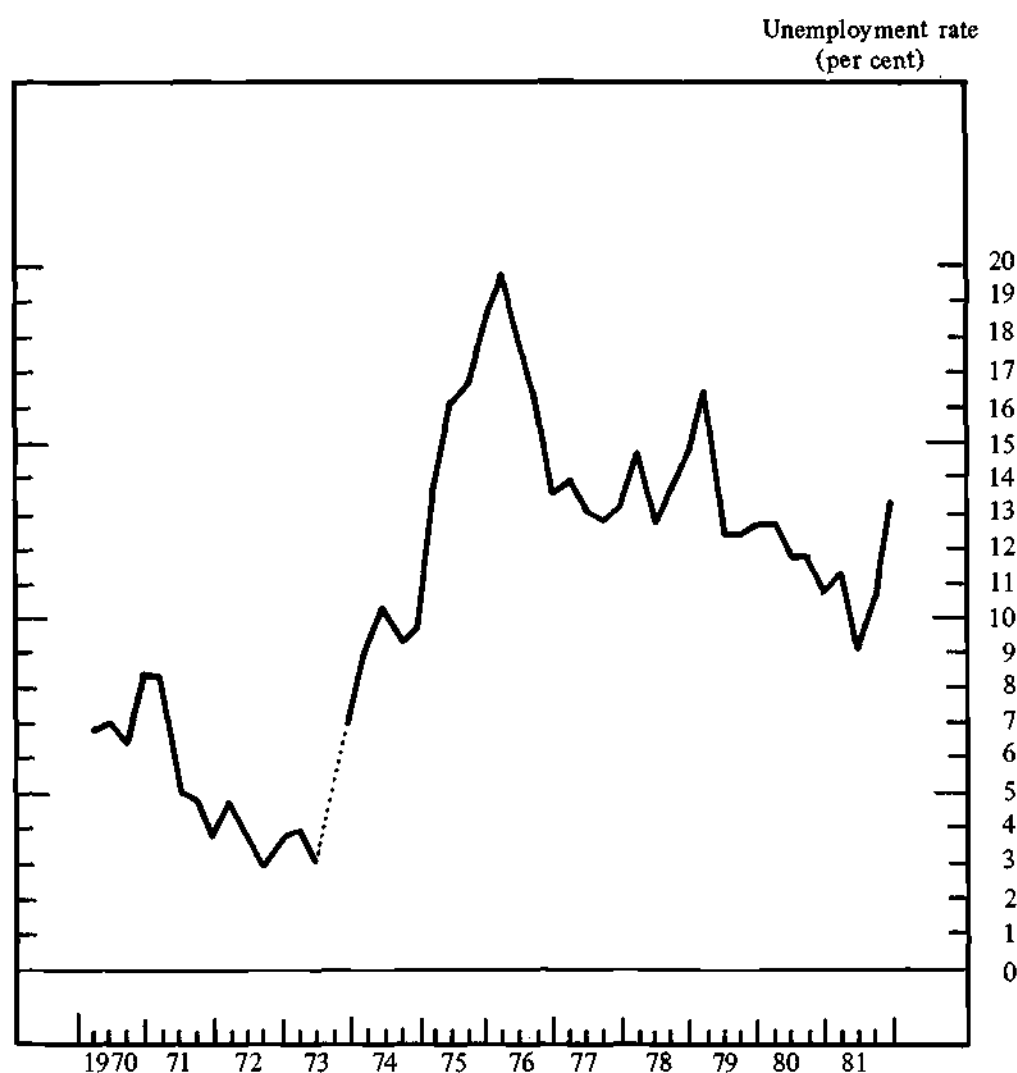
Nevertheless, a considerable part of this capital had been attracted by the combination of high nominal domestic interest rates (of the order of 4% per month) and the fixed exchange rate. This combination made external indebtedness very attractive to domestic debtors, since as long as the

exchange parity remained unchanged and the domestic rate of inflation was higher than the rate of interest charged on the loans in foreign currency, the cost of these loans was negative in terms of pesos. Moreover, the advances and growing solidity apparently displayed by the Chilean economy compared with others meant that loans to Chilean firms seemed attractive to the international commercial banks

In 1981, however, both the imbalance on the current account and the external indebtedness accelerated at an alarming rate. The first of these rose from a little over US\$ 2 billion in 1980 to almost US\$ 4 900 million in 1981, which was equivalent to close to 90% of the value of exports of goods and services and around 15% of the gross domestic product. At the same time, the net external debt, which had increased at a relatively moderate rate up to the previous year, rose by close to 60% in 1981. The seriousness of these exceptional increases was also aggravated by the fact that the value of exports dropped for the first time since 1975.

Figure 3

CHILE: QUARTERLY UNEMPLOYMENT RATES FOR GREATER SANTIAGO



Source: Department of Economics of the University of Chile.

Table 15

CHILE: UNEMPLOYMENT RATES, BY REGION'S

(Percentages)

	Regions				Nation-wide
	I-IV	V-VII	VIII-XII	Metro-politan Region	
Urban					
1980					
March	11.0	13.7	14.2	12.8	13.1
September	10.4	13.3	16.4	11.6	12.9
1981					
March	12.3	11.0	13.6	11.4	11.9
September	11.1	14.7	19.1	10.8	13.2
Rural					
1980					
March	10.3	5.3	9.4	8.4	7.9
September	8.6	12.4	8.1	12.4	10.0
1981					
March	7.3	5.1	10.2	5.2	7.7
September	8.3	9.7	8.0	10.3	8.8
Total					
1980					
March	10.9	10.8	12.5	12.6	12.0
September	10.1	13.0	13.3	11.7	12.3
1981					
March	11.3	9.0	12.3	11.2	11.0
September	10.6	13.0	15.1	10.7	12.4

Source: Department of Economics of the University of Chile.

Thus, by the end of 1981 there was no longer any doubt that there was a substantial external imbalance. In these circumstances, the discussions centered firstly about the question of whether the deficit was due mainly to exogenous factors (such as the rise in international interest rates or the drop in the price of copper) or to domestic economic policy measures (such as the maintenance of fixed exchange parity), and secondly about the most suitable measures that should be taken to tackle the imbalance. While some took the view that the problem could be solved by reducing the level of domestic prices and maintaining the exchange rate, others felt that it would be better to devalue. The great majority, at all events, acknowledged by this time that the Chilean peso was considerably overvalued.

(b) *External trade*

(i) *Exports of goods.* In 1981 there was an interruption in the rapid and persistent expansion which exports had been registering since 1976, for after increasing from US\$ 2 100 million in the latter year to US\$ 4 700 million in 1980, the value of external sales of goods dropped by almost 16% in 1981.

This decline was partly due to a slight reduction in the volume exported, which went down by a little over 1% after having expanded at an average rate of almost 11% during the previous eight years, but its main cause was the sharp drop (-15%) in the unit value of exports (see table 17).

The decline in the latter indicator, in its turn, mainly reflected the even greater drop (-20%) suffered by the average price of copper as a result of the international recession and, in particular, the sharp contraction suffered in the central countries in 1981 by the motor industry and housing construction, which are both activities using large quantities of this metal. The real price of copper thus dropped to its lowest level since at least 1960, and this meant that its purchasing power had now been extremely low for the last six years (see table 18 and figure 5). Because of this decline and a drop of around 1% in the volume exported, the value of external sales of copper fell by 23% and thus represented only 43% of the total value of exports of goods (see table 19).

During 1981 there were also considerable declines in the sales of all the other traditional products except iron ore. In the case of most of these products, these declines were due both to the lower world prices and to smaller volumes exported.

Table 16

**CHILE: EVOLUTION OF EFFECTIVE REAL EXCHANGE
RATE INDEXES FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual and quarterly averages	Effective real exchange rate index for:			
	Exports		Imports	
	(1) ^b	(2) ^c	(3) ^b	(4) ^c
1970	133.5	80.2	132.9	79.6
1971	124.4	66.9	120.4	65.2
1972	131.3	60.0	125.4	57.2
1973	148.2	74.1	137.4	68.7
1974	126.5	108.7	122.4	105.1
1975	135.7	142.6	131.1	137.8
1976	116.8	120.3	115.2	118.6
1977	113.8	100.2	110.9	97.6
1978	133.3	113.5	127.0	108.1
1979	118.6	114.5	114.2	110.2
I	131.5	116.5	124.4	110.2
II	122.6	114.7	118.1	110.5
III	116.0	118.3	111.6	113.9
IV	109.7	109.8	107.0	107.2
1980	100.0	100.0	100.0	100.0
I	107.5	104.9	107.3	104.7
II	101.5	101.2	101.9	101.5
III	98.5	100.5	98.0	99.9
IV	93.8	94.1	94.2	94.6
1981	88.5	81.4	93.1	85.6
I	92.2	89.0	94.9	91.6
II	87.6	81.9	92.2	86.1
III	85.1	77.5	91.3	83.2
IV	90.3	78.8	95.2	83.1

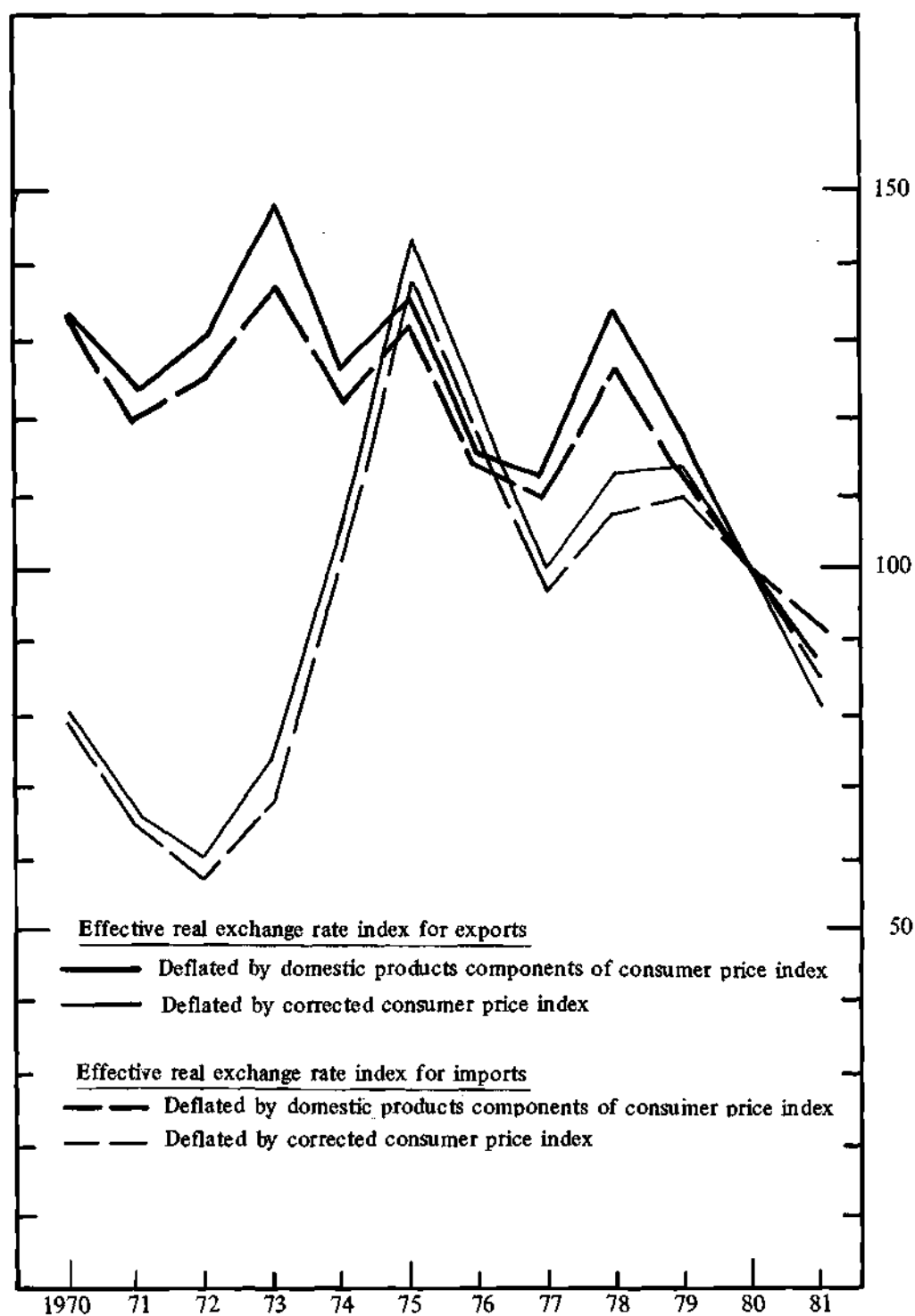
Source: Statistical Appendix.

^aFor a detailed explanation of the methodology used, see the introduction to the Statistical Appendix.

^bThe domestic products sub-index of the wholesale price index was used for purposes of deflation.

^cThe corrected consumer price index given in table 23 below was used for purposes of deflation.

Figure 4
**CHILE: EVOLUTION OF EFFECTIVE REAL EXCHANGE-RATE INDEXES
 FOR EXPORTS AND IMPORTS**
(1980 = 100)



The most radical change, however, was that which took place in non-traditional exports, whose intensive and sustained growth had been one of the most positive features of the evolution of the economy since 1974. Their value had grown eightfold between that year and 1980, but in 1981 it went down by 14% as a result of drops of 20% in the non-traditional exports of mining products and manufactures. Whereas the decline in the value of the former was due exclusively to the deterioration of international prices, the drop in the value of exports of industrial goods was due mainly to the smaller volumes exported. This decline was particularly significant since, on the one hand, non-traditional exports of manufactures had contributed over one-fifth of the total value of external sales of goods in 1980, while on the other, this reflected most directly the loss of international competitiveness caused by the drop in the real exchange rate.

Non-traditional exports of agricultural and marine origin, in contrast, continued to increase, although their growth rate (7.5%) was only a quarter of that registered on average in the previous three years. A decisive influence in their expansion was once more the increase in the value of exports of fresh fruit (especially grapes and apples), beans and fresh fish.

(ii) *Imports.* Under the incentive of the extraordinary increase in domestic spending and the low level of real exchange rate, imports of goods increased rapidly for the fifth consecutive year. Their value, after recovering in 1977 the level which it had had before the 1975-1976 crisis and subsequently increasing by 150% over the next three years, rose a further 20% in 1981. Unlike what had happened the previous year, however, when the rise of 30% in the value of imports had been due principally to the increase in their unit value, in 1981 the main cause was the expansion of their volume, which grew by 18%, thus making a total increase of almost 50% in the last three years.⁹ The rise in unit value, in contrast, was very moderate (1.5%) and was not only much smaller than the increase of around 23% registered in the previous two years but also the lowest since 1970 (see table 17).

Table 17

CHILE: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
Growth rates							
Exports of goods (FOB)							
Value	-26.1	33.1	3.3	12.6	55.9	22.7	-15.8
Volume	1.8	21.5	3.8	7.3	19.1	9.2	-1.3
Unit value	-27.4	9.5	-0.5	4.9	30.9	12.4	-14.8
Imports of goods (FOB)							
Value	-20.1	-3.1	46.0	34.2	45.2	30.5	19.9
Volume	-34.1	-4.5	31.4	24.1	18.2	4.7	18.1
Unit value	21.3	1.5	11.1	8.1	22.8	24.6	1.5
Terms of trade	-39.6	7.4	-10.3	-2.8	7.3	-8.3	-16.7
Indexes (1970 = 100)							
Terms of trade	53.2	57.1	51.3	49.8	53.4	49.0	40.8
Purchasing power of exports of goods	73.0	94.0	88.1	90.6	118.2	122.8	101.4
Purchasing power of exports of goods and services	75.3	95.7	93.7	96.6	127.1	139.1	125.8

Source: ECLA, on the basis of official data.

^aPreliminary figures.

⁹The expansion of the volume of imports was naturally much greater (almost 140%) if we take the last five years. However, a considerable part of this increase represented the recovery from the sharp drop experienced in the period 1975-1976. Indeed, the volume of imports regained its 1974 level only in 1978.

Table 18

CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE

(US cents per pound)

	Nominal price (US cents of each year)	Price indexes (1970 = 100)		Real price (US cents at 1970 prices)	
		United States whole- sale prices	Unit value of Chilean imports of goods and services	(1/2)	(1/3)
	(1)	(2)	(3)	(4)	(5)
1960-1964	32.4	86.3	84.1	37.5	38.5
1965-1970	61.0	93.0	93.5	65.6	65.3
1971-1972	49.0	105.6	106.1	46.4	46.2
1973-1974	87.1	133.6	152.3	65.2	57.2
1975-1981	72.7	202.7	269.4	35.9	27.0
1980	99.2	244.8	347.2	40.5	28.6
1981	79.0	266.9	349.8	29.6	22.6
1981					
First quarter	83.0	261.2	...	31.8	...
Second quarter	79.6	267.6	...	29.8	...
Third quarter	78.3	269.6	...	29.0	...
Fourth quarter	75.2	269.5	...	27.9	...

Source: Central Bank of Chile, International Monetary Fund, and ECLA estimates.

As in 1980, the component of imports which grew most rapidly was that consisting of consumer goods, the value of which registered a further considerable rise of 35% after having almost doubled in the course of only the two previous years, so that its share in the total value of imports of goods rose sharply to nearly 38%: an unusually high level in historic terms.¹⁰ The main reason for the sharp increase in external purchases of consumer goods was the exceptional rise in imports of automobiles, whose value, after having doubled between 1977 and 1980, doubled yet again in 1981 (see table 20). At the same time, imports of other non-food consumer goods continued to increase very rapidly (48%), so that their value increased almost fivefold over the last four years. In contrast, the value of external purchases of foodstuffs went down slightly in 1981.

The growth rate of imports of capital goods also went down during the year. The value of these imports, which had gone up at an average rate of 35% in the previous three years and had continued its upward trend even in the first half of 1981, subsequently shrank drastically, so that the increase for the year as a whole was only 13% (see table 20 and figure 2).

Imports of intermediate goods, in contrast, increased by 12%, which was only a little less than the year before. This somewhat lower growth rate was due firstly to the smaller imports of petroleum, the amount of which went down slightly for the second year running as a result of the rapid increase in domestic production, and secondly to the much smaller rise which took place in 1981 in the prices of the goods imported.

(iii) *The terms of trade and the purchasing power of exports.* In 1981 the terms of trade continued to deteriorate sharply. This occurred in spite of the fact that, thanks to the relative stabilization of the international price of petroleum, the drop in the world prices of many other basic commodities and the slight slackening of inflation in the main industrialized countries, the

¹⁰This share was below 30% in every year of the 1970s.

unit value of imports rose by only 1.5% after having increased at a rate of approximately 23% in the previous two years. The relief which this represented, however, was more than offset by the abrupt drop of nearly 15% in the unit value of exports, mainly because of the even larger decline in the international price of copper.

As a result of these changes, the terms of trade went down by almost 17%, which was the sharpest drop recorded since the 1975 crisis, when they dropped by 40% (see table 17). In 1981, the terms of trade thus sank to their lowest level since 1928, which is the first year for which comparable statistical data are available. The significance of this reduction becomes even clearer when we remember that it came on top of the considerable declines registered in three of the previous four years. Because of this, the average value of the terms of trade during the period 1977-1981 was not only equivalent to barely half that registered during the favourable five-year period 1966-1970, but was actually 27% lower than that corresponding to the period 1931-1935 (which includes the most critical years of the Great Depression) and was even slightly below the level of the period 1942-1946, when this indicator fell to its lowest point in the entire period 1928-1976.

As a result of the sharp new drop in the terms of trade and the slight reduction suffered for the first time since 1972, by the volume of exports of goods, the purchasing power of the latter declined by 18.5%. The drop was not so pronounced in the case of the purchasing power of exports of goods and services, which had also increased more rapidly up to 1980. If the increase in the population is taken into account, however, the decline suffered in 1981 meant a return, in this case too, to a situation practically equal to that existing in 1970.

(c) The balance on current account and capital movements

Because of the considerable increase in the value of imports and the decline in the value of exports, the trade deficit rose by an usually large amount. Thus, after having nearly doubled in 1980, the deficit on the trade in goods and services trebled in 1981, reaching the record level of close to US\$ 3 500 million (see table 21).

At the same time, net payments of interest continued to increase rapidly as a result of the growth in external indebtedness and the higher interest rates on international financial markets. The total value of these payments exceeded US\$ 1 300 million and was equivalent to almost a quarter of the value of exports of goods and services: a proportion ten percentage points higher than that of about 14% averaged in the previous three years.

In these circumstances, the current account deficit came to the astoundingly high figure of almost US\$ 4 900 million. This was not only well over double the already large deficit registered the previous year, but was over four times the size of the deficits registered in 1978 and 1979.

This exceptional increase in the current account deficit was influenced by a multiplicity of factors, some of them of an external nature and therefore relatively inevitable, but others attributable to the economic policy and to the expectations held and decisions taken both by the domestic private agents and the international commercial banks.

Among the first group of causes, undoubtedly the most important was the abrupt deterioration in the terms of trade, whose effect on the increase in the current account deficit may be estimated at between US\$ 800 and 1 000 million. A second exogenous factor which helped to accentuate the external imbalance was the already mentioned rise in interest rates on international financial markets, which meant that net payments of interest to the exterior increased by about US\$ 100 million. Thus, about one-third of the increase in the deficit was due to the influence of external factors.

Consequently, most of the aggravation in the external imbalance was due to factors either directly linked with the economic policy (such as the maintenance of the fixed exchange rate) or deriving from the interaction between that policy and the expectations of the domestic or international private agents, such as the exceptional expansion in domestic spending and the no less extraordinary inflow of external loans.

Thus, the net inflow of external credits, which had already increased in a noteworthy manner the year before, when it rose from a little under US\$ 2 billion in 1979 to over US\$ 3 billion in 1980,

again rose very sharply to a total of close to US\$ 4 500 million. The expansion was particularly great in the case of net medium- and long-term loans, which increased by over 60%, despite the fact that in the official sector the amortization payments exceeded the loans received by almost US\$ 500 million. This massive inflow of loans was also accompanied by the doubling of direct foreign investment, so that the net inflow of capital in 1981 came to the unprecedented figure of US\$ 5 billion.

Thus, despite the extraordinary size of the current account deficit, the balance of payments finally closed with a small surplus of a little over US\$ 100 million¹¹ (see table 21).

Table 19

CHILE: VALUE AND BREAKDOWN OF EXPORTS, FOB

	Millions of dollars					Percentage breakdown		Growth rates			
	1970	1975	1979	1980	1981 ^a	1971	1981 ^a	1978	1979	1980	1981 ^a
Total exports of goods	1 096	1 552	3 763	4 818	3 931	100.0	100.0	10.0	56.3	28.0	-18.4
Traditional	1 009	1 187	2 544	3 189	2 529	90.7	64.3	3.6	55.6	25.4	-20.7
Copper	855	890	1 800	2 200	1 692	73.0	43.1	1.2	50.0	22.2	-23.1
Iron ore	71	91	110	157	162	7.1	4.1	-2.4	38.7	42.7	2.7
Nitrates and iodine	24	55	58	89	83	3.7	2.1	17.5	24.8	53.4	-7.1
Molybdenum	11	30	193	229	149	0.6	3.8	-13.0	309.1	18.6	-35.0
Fishmeal	15	29	153	234	202	3.1	5.1	21.8	44.2	52.9	-13.7
Wood pulp	18	58	181	231	204	1.7	5.2	36.5	56.2	27.6	-11.7
Paper and paperboard	15	33	49	49	37	1.5	0.9	-11.6	27.9	-	-24.5
Non-traditional	87	365	1 219	1 629	1 402	9.3	35.7	26.1	57.8	33.6	-13.9
Mining products	2	9	92	243	195	0.3	5.0	14.6	95.3	164.1	-19.8
Agricultural and marine products	32	86	265	340	365	3.1	9.3	27.5	30.0	28.3	7.5
Crop farming products	22	60	184	244	268	2.4	6.8	24.4	16.6	32.6	9.7
Livestock products	8	17	38	37	29	0.5	0.7	21.7	34.9	-2.6	-21.1
Forestry products	1	4	3	2	2	0.1	0.1	-	7.5	-33.4	-
Fishery products	1	6	40	57	66	0.1	1.7	77.8	155.8	42.5	15.9
Manufactured products	53	270	863	1 046	842	5.9	21.4	26.7	65.7	21.2	-19.5
Food and beverages	16	77	148	163	141	1.5	3.6	-1.1	64.0	10.1	-13.5
Wood	9	25	165	286	159	0.7	4.0	34.3	74.5	73.3	-44.6
Chemicals and petroleum products	6	46	128	163	148	1.3	3.8	35.9	20.7	27.3	-9.2
Basic metal industries	3	59	307	279	235	1.2	6.0	38.8	113.7	-9.1	-15.8
Metal products, machinery and electronic articles, etc.	5	42	60	64	44	0.5	1.1	54.1	5.3	6.7	-31.5
Transport equipment	10	7	26	43	74	0.5	1.9	-27.3	221.0	65.4	72.1
Other	4	14	29	47	41	0.2	1.0	9.1	26.0	62.1	-12.8

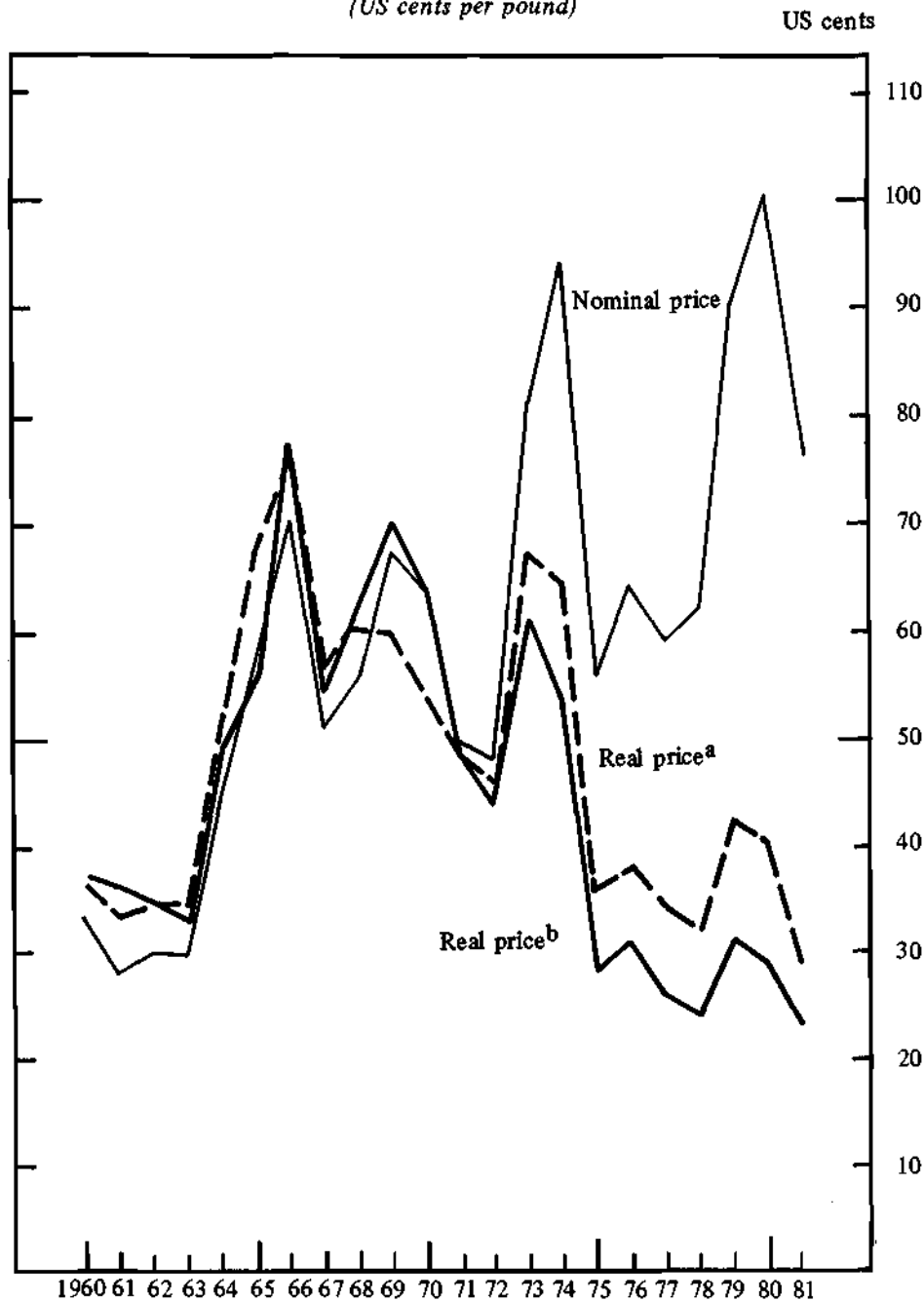
Source: Central Bank of Chile.

^aPreliminary figures.

¹¹Because of the drop in the international price of gold, however, the net international reserves declined by approximately US\$ 300 million.

Figure 5

CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE
(US cents per pound)



^aNominal price deflated by the United States wholesale price index (1970 = 100).

^bNominal price deflated by the index of the unit value of Chile's imports of goods and services (1970 = 100).

(d) *The external debt*

Another result of the large inflow of external loans in 1981 was naturally a considerable increase in external indebtedness. Hence, the gross external debt, which had already increased at an average rate of around 30% per year in the previous three years, rose by 35% in 1981 to a total of approximately US\$ 14 500 million: three times the total of only four years before (see table 22).

As had already occurred in 1980, but this time to a much more marked degree, this new increase in gross external indebtedness derived exclusively from the larger commitments contracted by the private sector. Thus, whereas the external public debt and State-guaranteed debt went down from US\$ 4 700 million in 1980 to US\$ 4 400 million in 1981, the external private debt rose from a little less than US\$ 4 700 million in 1980 to US\$ 8 100 million in 1981. This meant that it increased fivefold in only the last three years and in 1981 exceeded for the first time the external public debt, the total amount of which, in contrast, was practically the same in 1981 as in 1978.

Furthermore, and in open contrast with what had taken place in previous years, the growth rate of net external indebtedness in 1981 was considerably higher than that of gross indebtedness. As a result of the rapid increase in the latter and the decline registered, for the first time since 1975, in the external reserves, the net external debt increased by almost 60% in 1981, so that its absolute volume rose considerably more in that year than in the preceding 7 years.

Another symptom of the aggravation of the problems connected with external indebtedness in 1981 was the noteworthy rise in the debt servicing coefficient. Because of the sharp increase in payments of principal and, above all, interest, and the simultaneous decline in the value of exports of goods and services, the debt servicing amounted in 1981 to the equivalent of 58% of those exports: a much larger proportion than the already high figures of 40% to 45% registered in the preceding 5 years (see table 22).

Table 20

CHILE: VALUE AND BREAKDOWN OF IMPORTS OF GOODS, CIF

	Millions of dollars					Percentage breakdown		Growth rates			
	1970	1975	1979	1980	1981 ^a	1971	1981 ^a	1978	1979	1980	1981 ^a
Total	956	1 776	4 708	6 145	7 368	100.0	100.0	34.2	45.2	30.5	19.9
Consumer goods	235	454	1 327	2 070	2 786	27.7	37.6	36.8	23.0	56.0	34.6
Consumer goods other than food	99	93	806	1 271	2 009	8.8	27.3	36.8	33.9	57.7	58.1
Motor vehicles	...	...	127	203	428	...	5.8	17.1	9.5	59.8	110.8
Goods of industrial origin	...	...	679	1 068	1 581	...	21.5	42.5	39.7	57.3	48.0
Food	136	361	521	799	777	18.9	10.5	36.7	9.2	53.4	-2.8
Intermediate goods	445	1 041	2 435	2 801	3 142	47.8	42.6	28.9	70.3	15.0	12.2
Fuels and lubricants	58	252	981	963	930	8.8	12.6	5.0	123.5	-1.8	-3.4
Raw materials	...	363	565	632	765	...	10.4	18.4	46.4	11.9	21.0
Spare parts and intermediate industrial products	...	426	889	1 206	1 447	...	19.6	65.8	46.9	35.7	20.0
Capital goods	276	279	946	1 274	1 440	26.4	19.6	41.4	28.9	34.7	13.0

Source: Central Bank of Chile.

^aPreliminary figures.

Table 21

CHILE: BALANCE OF PAYMENTS

(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	2 413	2 604	2 941	4 619	5 968	5 507
Goods FOB	2 116	2 186	2 460	3 835	4 705	3 960
Services ^b	298	418	482	784	1 262	1 546
Transport and insurance	120	149	233	348	433	433
Travel	87	82	109	150	174	221
Imports of goods and services	1 988	2 885	3 637	5 238	7 122	8 992
Goods FOB	1 473	2 151	2 886	4 190	5 469	6 558
Services ^b	515	734	751	1 048	1 653	2 434
Transport and insurance	284	342	421	584	872	1 049
Travel	88	205	130	165	200	259
Merchandise balance	643	35	-426	-355	-764	-2 599
Trade balance	425	-281	-696	-619	-1 154	-3 486
Profits and interest	-326	-365	-490	-676	-929	-1 428
Profits	-2	-23	-33	-41	-82	-121
Interest received	10	18	41	127	305	599
Interest paid	-333	-358	-497	-761	-1 152	-1 906
Unrequited private transfer payments	32	81	75	88	60	45
Balance on current account	132	-567	-1 111	-1 205	-2 024	-4 869
Unrequited official transfer payments	16	16	23	17	53	55
Long-term capital	47	50	1 510	1 786	2 243	3 732
Direct investment	-1	16	177	233	171	376
Portfolio investment	-6	-7	-	50	-	-
Other long-term capital	54	41	1 333	1 503	2 072	3 356
Official sector ^c	25	-158	167	96	-193	-485
Loans received	289	218	587	581	280	152
Amortization payments	-259	-357	-421	-485	-472	-637
Commercial banks ^c	-18	7	290	525	1 438	2 472
Loans received	-	18	295	593	1 617	2 711
Amortization payments	-18	-11	-4	-50	-147	-221
Other sectors ^c	47	191	876	882	826	1 369
Loans received	448	668	1 439	1 693	1 645	2 334
Amortization payments	-401	-478	-562	-810	-819	-965
Basic balance	195	-501	422	597	272	-1 081
Short-term capital	68	557	449	470	1 000	1 107
Official sector	-80	43	14	4	100	70
Commercial banks	-36	127	58	39	469	252
Other sectors	184	386	378	428	431	785
Errors and omissions (net)	69	114	-126	-13	49	114
Balance on capital account	200	737	1 857	2 261	3 344	5 008
Global balance ^d	331	169	746	1 056	1 320	139
Total variation in reserves ^d (minus sign indicates an increase)	-272	-125	-683	-1 061	-1 331	-162
Monetary gold	-2	-1	-1	-44	-90	1
Special Drawing Rights	-31	-11	39	-2	25	-15
IMF reserves position	0	0	-50	1	-33	7
Foreign exchange assets	-318	-11	-654	-848	-1 177	-81
Other assets	-	-	-	-	-	-
Use made of IMF credit	80	-101	-18	-169	-57	-74

^aPreliminary figures.^bServices also include other official and private transactions, but not profits and interest.^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^dThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

4. Prices and wages

(a) Prices

In 1981 there was quite a marked reduction in the rate of inflation, for the 9.5% rise in consumer prices was not only much less than the rate of 31% registered in 1980, but also well below all those registered in the previous 40 years, except for that corresponding to the year 1960. The slackening of the inflationary process was reflected even more noticeably in the evolution of wholesale prices, which, after rising 58% in 1979 and 28% in 1980, actually went down by almost 4% in 1981 (see table 23).

This decline in the growth rate of prices was due to the maintenance of fiscal balance and, above all, the preservation of the exchange parity *vis-a-vis* the dollar fixed in June 1979. This latter policy had the result that the growth rate of domestic prices finally came close to the rate of international inflation, albeit with a much greater lag than had originally been expected and only because of the total opening of the trade account. The restrictive effect of the fixed exchange rate policy on price rises was also strengthened in 1981 by the appreciation of the dollar on international exchange markets and the drop in the international prices of many basic commodities: both developments which, as already noted, helped to bring about a considerable reduction in the variation in the unit values of Chilean imports.

The incidence of exchange policy on the course of inflation was also manifested in the uneven evolution of the different price indexes. Thus, the index which rose most rapidly in 1981 was that of building—which measures the cost of an internationally non-tradeable good—whereas there was a decline in the wholesale price index, where an important role is played by internationally tradeable goods, whose prices, in an open economy with a fixed exchange rate, tend in the long run to come into line with international price levels.

The restrictive consequences of the exchange policy on the rate of inflation were compounded in the second half of the year by the effects of the sharp drop in total demand and the accumulation of considerable stocks of dwellings, automobiles and other consumer durables which it was not possible to sell.

(b) Wages

Two factors had a decisive influence on the evolution of real wages in 1981. The first was the drastic fall in the rate of inflation, which, together with the system of readjustments of wages and salaries as a function of past inflation, helped to increase their purchasing power considerably. The second was the application of the reforms to the pension system, which not only significantly altered the costs and benefits of the social security system in the medium and long term, but also had an immediate effect on the take-home pay of a considerable part of the labour force.

(i) *Wages and the cost of labour.* In 1981, the index of real wages and salaries rose by a little over 9%, thus maintaining its average growth rate of the previous four years. As a result, real wages registered a total increase of 55% over the last five years. In spite of this considerable increase, however, the drastic fall suffered by real wages and salaries during the period 1972-1975 meant that even in 1981 they had still not recovered their 1970 level and were 14% lower than in the two-year period 1971-1972 (see table 24).

As had already occurred in previous years—but this time even more markedly—the main factor promoting the rise in the purchasing power of wages was the readjustment machinery provided for in the labour legislation, whereby the nominal wages and salaries of workers subject to collective negotiation must be increased by at least the same percentage as the rise in the consumer price index during the preceding period. In view of the pronounced downward trend in the rate of price increases in 1981, the application of this machinery meant considerable rises in the purchasing power of wages and salaries. Thus, for example, the collective agreements whereby nominal wages and salaries were increased according to the inflation over the previous twelve months (35% on average), meant that the real level of wages rose by almost 13%, since the average rise in consumer prices in 1981 was slightly under 20%.

Not all workers benefited from the effects of this provision regarding readjustability, however. Thus, the purchasing power of wages adjusted strictly in accordance with the general law on readjustments remained stable, as the number of readjustments was once again reduced in 1981.¹² As had already happened in 1980, this reduction in the number of readjustments offset the positive effect which —had the previous frequency of the latter been maintained— the sharp decline in inflation should have had on the purchasing power of wages subject to the system of automatic readjustments.

Table 22
CHILE: EXTERNAL DEBT^a

(Billions of dollars)

	1970	1973	1974	1975	1976	1977	1978	1979	1980	1981
External debt										
I. Medium-and long-term external debt	2.8	3.3	4.0	4.3	4.3	4.5	5.9	7.5	9.4	12.6
1. Public and State-guaranteed private debt	2.2 ^b	2.9	3.6	3.6	3.5	3.5	4.4	4.8	4.7	4.4
2. Private debt	0.5	0.4	0.4	0.7	0.8	1.0	1.6	2.7	4.7	8.1
a) Supplier credits	0.1 ^c	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.5
b) Lines of credit for importation of capital goods								0.2	0.3	0.5
c) Financial credits ^d	0.4	0.3	0.3	0.5	0.6	0.8	1.4	2.4	4.1	7.2
II. Short-term credit to commercial and development banks	0.05	0.4	0.3	0.4	0.3	0.4	0.5	0.7	1.3	1.9
III. Gross general external debt (I + II)	2.8	3.6	4.4	4.7	4.5	4.9	6.4	8.2	10.7	14.5
IV. Net international reserves ^e	0.4	0.2	0.1	-0.1	0.1	0.3	1.1	2.3	4.1	3.8
V. Net general external debt (III - IV)	2.4	3.5	4.3	4.8	4.4	4.6	5.4	5.8	6.7	10.7
Servicing of medium and long-term debt										
Total	0.4	0.2 ^f	0.3 ^f	0.6 ^f	0.9	1.2	1.3	1.9	2.4	3.2
Amortization payments	0.3	0.13	0.2	0.4	0.7	0.9	0.9	1.3	1.5	1.8
Interest	0.1	0.04	0.1	0.2	0.2	0.3	0.4	0.6	0.9	1.4
Total as a percentage of exports of goods and services	33	12	15	31	39	44	45	41	40	58

Source: Central Bank of Chile, *Deuda externa de Chile* 1981, July 1982.

^a Amounts disbursed and pending payment at 31 December of each year.

^b Including balances and credits contracted by some private enterprises subsequently incorporated into the public sector.

^c Excluding balances in respect of credits contracted by enterprises subsequently incorporated into the public sector.

^d Credits entering under articles 14, 15 and 16 of the International Exchange Law and credits under Decree-Law 600.

^e Corresponds to the international assets of the Central Bank, less liabilities with the International Monetary Fund. Gold is valued at market prices and mutual credit agreements are taken at their net value. This explains the difference compared with table 21, where gold is valued at 35 SDR units per ounce.

^f The servicing is lower because of the renegotiation of the external debt.

¹² In 1981 there was only one general compulsory readjustment of wages, when they were increased by 14% in August. In contrast, in 1980 there were two compulsory readjustments, one in April (8%) and another in October (14%), while in 1979 there had been three such readjustments: March (6%), July (11%) and December (12%).

Table 23

CHILE: EVOLUTION OF DOMESTIC PRICES

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Variation from December to December										
Consumer price index	163.4	508.1	375.9	340.7	174.3	63.5	30.3	38.9	31.2	9.5
Food	243.3	474.2	392.0	321.3	167.4	59.4	25.5	41.9	30.8	0.1
Corrected consumer price index ^a	216.7	605.9	369.2	343.3	197.9	84.2	37.2			
Wholesale price index	143.3	1 147.1	570.6	410.9	151.5	65.0	38.9	58.3	28.1	-3.9
Imported products	98.8	1 692.2	714.5	363.8	130.1	79.2	22.2	67.5	12.5	0.5
Domestic products	156.6	1 021.2	517.5	424.9	157.1	61.7	43.2	56.3	31.9	-4.8
Agricultural products	337.7	512.9	381.0	565.2	148.6	53.0	48.9	52.2	27.7	-14.5
Mining products	96.5	1 503.1	823.3	381.8	147.7	46.6	40.6	85.6	37.8	12.1
Manufactures	116.3	1 244.2	527.4	350.7	165.7	70.8	39.6	55.3	33.9	-0.9
Index of building costs	236.4	681.9	315.4	328.1	195.1	78.1	43.7	44.8	31.8	14.5
Variations between annual averages										
Consumer price index	77.8	352.8	504.7	374.7	211.9	92.0	40.1	33.4	35.1	19.7
Food	115.2	376.5	513.7	359.6	212.8	86.2	34.6	31.1	36.1	14.2
Corrected consumer price index ^a	108.3	441.0	497.8	379.2	232.8	113.8	50.0			
Wholesale price index	70.0	511.4	1 029.0	482.0	221.1	86.0	42.9	49.4	39.6	9.1
Imported products	56.2	580.4	1 349.8	445.9	201.6	99.8	34.9	41.7	37.7	4.4
Domestic products	74.3	492.2	926.9	486.0	226.1	82.8	45.0	51.3	40.0	10.1
Agricultural products	108.0	448.2	640.1	567.2	245.9	79.3	34.7	51.8	41.4	2.7
Mining products	71.9	499.4	1 503.5	478.8	191.7	73.2	51.1	70.1	54.0	22.3
Manufactures	66.2	505.1	969.1	420.7	215.5	87.4	52.7	48.3	41.3	13.3
Index of building costs	...	...	...	333.9	233.2	109.0	54.9	42.7	40.7	22.5

Source: National Statistical Institute; Cámara Chilena de la construcción; José Yáñez, "Una corrección del índice de precios al consumidor, 1971-1977," in *Comentarios sobre la situación económica*, Department of Economics of the University of Chile; and René Cortázar and Jorge Marshall, "Índice de precios al consumidor en Chile: 1970-1978", *Estudio CIEPLAN*, N° 4, November 1980.

^a1971-1973: based on the index of Yáñez; 1974-1978: based on the index of Cortázar and Marshall.

Moreover, as a result of the reduction of the pension contributions which had to be paid by the employer, the real cost of labour for enterprises increased less in 1981 than did wages and salaries. As this had already happened in the previous four years also, because of the application of the policy of systematically reducing contributions and financing and increasing part of the social security benefits with funds from the fiscal budget, the cost of labour for the employer increased 12% less during the five-year period 1977-1981 than did real wages. The difference registered during the period 1970-1981 was 6%, so that the real cost of labour was 8.5% lower in 1981 than in 1970 (see table 24). As in the course of the latter period the product per worker employed (not including those in the PEM), adjusted by the sharp drop in the terms of trade, rose by 10%, the cost of labour per unit of the product was almost 20% lower in 1981 than in 1970.

(ii) *Take-home pay and the reform of the pension system.* The new pension legislation which began to be applied in 1981 had an important effect on the take-home pay of a significant part of the labour force, for under the provisions of this reform, the social security contributions became the responsibility of the worker, regardless of whether he continued to contribute to one of the old social security funds or transferred to the new system of private pension funds (Administradoras

de Fondos Previsionales -AFP). In order to make up for the effect of this change, the income of all wage-earners was adjusted by an amount equivalent to the increased contributions which they would have to make, so that in principle their take-home pay would remain the same. Those workers who transferred to the new pension system, however, had their contributions reduced from an average of 27% of their nominal pay to 17%,¹³ so that on average their take-home pay was 12% higher than if they had stayed in the old system.¹⁴ The new legislation thus established a powerful incentive for workers to join the new private pension funds, and this explains why by the end of the year almost 45% of the labour force was in fact contributing to such funds.¹⁵

Table 24

**CHILE: EVOLUTION OF REAL WAGES AND SALARIES
AND OF COST OF LABOUR TO THE EMPLOYER**

	Index of real wages and salaries (1)	Variation during the year (2)	Index of real cost of labour (3)	Variation during the year (4)
1970	100.0	-	100.0	-
1971	119.3	19.3	118.6	18.6
1972	108.2	-9.3	109.1	-8.0
1973	71.4	-34.0	72.0	-33.6
1974	64.8	-9.1	71.5	-1.3
1975	62.1	-3.3	66.7	-6.5
1976	63.0	0.5	68.0	2.0
1977	71.1	12.9	75.9	11.6
1978	75.7	6.4	76.7	1.1
1979	82.0	8.3	80.0	4.4
1980	89.4	9.0	85.2	6.5
1981	97.5	9.1	91.5	7.4

Source: 1) Index of nominal wages and salaries of the National Statistical Institute (INE), deflated for the period 1971-1973 by the consumer price index prepared by José Yáñez, *op.cit.*, for the period 1974-1978 by the corrected consumer price index given in table 23 below; and for the period 1979-1980 by the consumer price index of the INE.

For the years 1970-1976 the figures correspond to the average for April, July and October, which for 1977-1980 they represent the average for the whole twelve months.

2) Index of cost of labour calculated on the basis of the index of wages and salaries (column 1), adjusted by the variations in the rates of contributions payable by the employer in respect of the taxable income. As these calculations do not take account of variations in the ceilings on taxable income or categories of income exempt from contributions, they probably slightly overestimate the variations in cost. The variations in employers' contributions were taken from table 1 of the study by José Pablo Arellano, "Elementos para el análisis de la reforma previsional chilena", in *Estudios CIEPLAN*, December 1981.

¹³ The reduction in contributions was justified by the savings represented by extending retirement age, eliminating the lump sum previously payable on termination of employment, and increasing the number of years of contributions required in order to receive the minimum old-age pension.

¹⁴ The average increase was probably actually somewhat smaller, since the contributions actually paid by enterprises were usually only about 50% of those nominally laid down by the law, either because certain classes of income were not taxable, because of the existence of flat-rate ceilings, or because of simple evasion of obligations. For these reasons, the contributions actually made by employers, according to the national accounts, were equivalent to approximately 15% to 20% of wages and salaries instead of the average rates of between 20% and 30% payable in accordance with the law.

¹⁵ About 89% of the workers who joined the private pension funds were wage-earners, the remaining 11% being made up of own-account workers (who did not have a pension system before).

Table 25

CHILE: MONETARY INDICATORS

	December averages for each year, in billions of pesos			Growth rates		
	1979	1980	1981 ^a	1979	1980	1981 ^a
Money issue (E)	68.3	93.7	87.3	49.4	37.2	-6.8
Total money supply	78.8	140.2	143.1	59.1	77.9	2.1
Private sector (M ₁)	47.6	75.9	82.5	58.7	59.5	8.7
Public sector (PS)	31.2	64.3	60.6	59.6	106.1	-5.7
Term deposits (TD) ^b	83.7	142.4	244.6	72.5	70.1	71.8
From 30 to 89 days	56.4	85.8	206.8	42.9	52.1	141.0
From 90 to 365 days	17.5	37.0	12.5	217.5	111.4	-66.2
Readjustable	7.3	27.7	2.6	1 284.5	279.5	-90.6
Non-readjustable	10.2	9.3	9.9	104.7	-8.8	6.5
Over one year	4.2	19.6	25.3	160.1	366.7	29.1
Private money + term deposits (M ₂ + M ₁ + TD)	131.3	218.3	327.1	66.6	66.3	49.8
Bank quasi-money (D ₂) ^c	108.8	196.1	310.3	78.5	80.2	58.2
Term deposits	83.7	142.4	244.6	72.5	70.1	71.8
Savings deposits	16.1	39.8	44.0	82.7	147.2	10.6
Loans by the banking system						
National currency	130.4	251.6	412.7	100.8	92.9	64.0
Foreign currency ^d	3 037.0	5 264.0	7 156.0	39.6	73.3	35.9

Source: Central Bank of Chile, *Síntesis Monetaria*.^a Preliminary figures.^b Includes bonds of the Department of Savings and Investments (DAI).^c Includes other deposits for less than 30 days.^d Millions of dollars.

5. Monetary and fiscal policy

(a) *Monetary policy*

In 1981, monetary policy was conditioned by the effects of two significant and unexpected events. The first of these was the abrupt threefold increase in real interest rates from the first quarter onwards, which, as it did not subsequently subside, kept interest rates at an extraordinarily high level throughout the year. The second was the deterioration of the financial soundness of a growing number of enterprises, the first public manifestation of which was the bankruptcy of an important sugar refining enterprise at the beginning of the second quarter, which had far-reaching repercussions, culminating in the takeover by the Central Bank in October of four commercial banks and four finance establishments.

The rise in real interest rates naturally helped to increase the burden of financial costs in the total costs of enterprises, as well as helping to reverse the expectations of big new capital gains which had existed at the beginning of the year. Furthermore, together with the growing uncertainty regarding the solvency of enterprises, this helped to generate doubts about the stability and soundness of the whole financial system.

The persistence of the high rates of interest and the problems of the financial intermediaries originated mainly from the changes which had arisen in the demand for credits, rather than from

the evolution of the money supply. The latter —and especially the erratic course of domestic credit— had more of an influence on the composition of the monetary aggregates and, through this, on the short-term fluctuations in interest rates.

(i) *The principal monetary aggregates.* In 1981, the course followed by the principal monetary aggregates was very disparate. Thus, while the issue of money went down by almost 7% after having grown in the previous two years at an average rate of over 40%, and the amount of money increased by barely 2% after having likewise expanded very rapidly in previous years, term deposits rose by rather more than 70%, as they had done also in 1979 and 1980 (see table 25).

These notable differences in growth rates were mainly the result of the changes made in the regulations governing deposits by public bodies and the considerable increase in real interest rates. Thus, in 1981 the compulsory deposit coefficient applicable to the unified fiscal bank account was reduced from 87% to 10%, and the obligation which many public institutions had previously had to keep their deposits in that account was eliminated. As a result of this, the bank multipliers increased and this, in its turn, enabled the amount of money to increase in spite of the decline in the actual issue of currency. The much smaller increase in money than in quasi-money, for its part, reflected the influence of the rise in real interest rates. Even so, thanks to the considerable expansion in term deposits, the ratio between the broadest concept of the money supply and the gross domestic product rose for the second consecutive year and reached the record level of almost 20% (see table 26).

In contrast with what had happened in the previous three years, when the increases in the issue of money had originated almost exclusively from exchange operations, in 1981 the latter played a contractive role. The effect of this reduction, however, was partially offset by the expansion of the other operations of the Central Bank (see table 27).

(ii) *Interest rates.* As may be seen from table 28, real interest rates on loans had gone down steadily between 1977 —when they stood at the unusually high level of 39% per year— and 1980 —when they dropped to an average of 12%. At the beginning of 1981, it was expected that this decline would continue until the rates came close to those prevailing in international markets,

Table 26

CHILE: MONETARY COEFFICIENTS

(Percentages)

	M_1^a	D_2^b	$M_1 + M_2$
	GPD	GPD	GPD
1960-1965 ^c	8.2	3.8	12.0
1966-1970 ^c	8.4	3.2	11.6
1971	12.8	4.2	17.0
1972	13.7	3.8	17.5
1973	10.6	2.3	12.9
1974	5.3	1.1	6.4
1975	4.5	2.6	7.1
1976	3.9	3.7	7.6
1977	4.5	6.0	10.5
1978	4.8	7.7	12.5
1979	4.9	9.7	14.6
1980	5.5	10.7	16.2
1981 ^d	5.0	14.6	19.6

Source: Ministry of Finance, Santiago, *Exposición sobre el estado de la hacienda pública*, July 1981.

^a M_1 = Private sector money.

^b D_2 = Bank quasi-money.

^c Annual averages.

^d ECLA estimates.

Table 27

CHILE: ORIGIN OF VARIATIONS IN MONEY ISSUE

(End-December balances for each year, in millions of pesos)

	1978		1979		1980		1981	
	Amount	Percent-age	Amount	Percent-age	Amount	Percent-age	Amount	Percent-age
Adjusted issue	16 578	100.0	20 702	100.0	24 712	100.0	-8 185	100.0
Exchange operations	16 747	101.0	28 032	135.4	27 054	109.5	-53 560	654.4
Operations with treasury	-769	-4.6	-5	-	-108	-0.4	16 188	-197.8
Domestic credit	4 223	25.5	244	1.2	769	3.1	10 316	-126.0
Operations with securities	-3 623	-21.9	7 569	-36.6	-3 003	-12.2	18 871	-230.6

Source: Central Bank of Chile.

Table 28

CHILE: BANK INTEREST RATES

	1976	1977	1978	1979	1980	1981	1981 ^a			
							I	II	III	IV
Nominal										
Short-term deposits	197.9	93.7	62.8	45.0	37.4	40.8	45.0	40.9	38.8	38.5
Short-term loans	250.7	156.3	85.3	62.0	46.9	51.9	52.2	50.6	50.9	53.9
Real										
Non-readjustable operations										
Short-term deposits ^b	-	5.2	18.7	4.6	4.7	28.6	29.8	27.1	24.7	33.0
Short-term loans ^b	17.7	39.1	35.0	16.6	12.0	38.7	36.2	35.8	35.6	47.8
Readjustable operations										
Deposits	...	15.5	17.5	14.5	8.4	13.1	9.4	14.9	17.0	11.4
Loans	...	...	...	23.0	15.4	14.5	12.4	14.6	13.8	17.3

Source: Central Bank of Chile.

^a Annual rates projected on the basis of quarterly rates.^b Calculated on the basis of the nominal rates published by the Central Bank, the corrected consumer price index given in table 23, and the consumer price index of the National Statistical Institute (period 1979-1981).

which, although they had risen sharply in the last quarter of 1980 to a level of 5-6% real interest annually, continued to be much lower than the Chilean rates. Thus, it did not seem unreasonable to assume that the real interest rates in Chile would continue to go down, especially in view of the relatively extensive financial and commercial openness prevailing and the maintenance of a policy of keeping the exchange rate fixed.

Consequently, it came as a shock to most of the economic agents when, in February 1981, real interest rates suddenly rose to a level of 3.5% per month. Just as surprising and undoubtedly more serious was the fact that they remained at similar levels for the rest of the year, so that their annual average came to almost 39% —practically the same as the extraordinarily high rate registered in 1977 (see table 28).

Both the initial rise in interest rates and their subsequent maintenance at a very high level were due to a succession of phenomena seen at the time as being only temporary, such as the lag with which the economic agents adjusted their inflationary expectations to the abrupt decline in inflation from February onwards; the sharp reduction in the issue of money which took place in the

same month because of the advance payment by the Government of a State debt to the Central Bank; the bankruptcy of the sugar refining firm CRAV in May and the reduction in the inflow of external capital which this caused; and finally, the growing lack of confidence in the national financial system, which led to a net outflow of capital in the last quarter of the year and culminated in November with the State takeover of eight financial institutions. The fact that all these phenomena took place one after another contributed to the continuation of the high rates of interest.

Precisely because each of these events was seen at the time as being only temporary, however, the demand for credit remained at a high level, just as though the long-term cost of credit were low (which, as already noted, was what most of the agents expected at the end of 1980). Consequently, instead of going down as a result of the rise in interest rates, the amount of loans requested remained undiminished, and the demand for credit became virtually inelastic with respect to short-term interest rates.

To put it another way, the demand for credit by enterprises, which had increased at the beginning of the year because of the favourable expectations then prevailing, remained high as time went on, first of all because it was thought that the rise in interest rates would only be temporary, and subsequently because the accumulated financial costs were so high that it was necessary to obtain new credits in order to avoid the heavy loss of capital that would have been caused by the liquidation of assets needed in order to pay the accumulated financial commitments. Thus, the country passed from a situation in which the demand for credit was high because of good expectations to one where the demand for credit remained high because it was hoped that "something" would happen which would make it unnecessary to liquidate assets at a clearly and increasingly recessive time.¹⁶ In other words, the natural reluctance to suffer heavy losses of capital discouraged the liquidation of assets and, consequently, kept the real interest rates high.¹⁷

(iii) *The Government intervention in the financial system.* In these circumstances, it was clear that no matter how efficient enterprises might be, they could not keep on paying such high real interest rates on a continuing basis without seriously weakening their financial position or even compromising their solvency, for although loans in foreign currency—which amounted to one-third of the total loans—were much cheaper, they nevertheless involved an exchange risk. Even if this latter factor is not taken into account, however, the average rate of interest on all loans, both in domestic currency and in foreign currency, was of the order of 27% per year in real terms. In view of the high level of indebtedness existing in the country—which exceeded 50% of the domestic product—this meant that every year it was necessary to pay interest equivalent to some 15% of the product. This transfer, which would have been difficult even in normal times, was virtually impossible in a period such as the second half of the year, when the economy was sliding rapidly into a profound and generalized recession.

In effect, the process described above meant a pronounced redistribution of income from debtors to creditors (especially depositors), in which the financial system served as an intermediary. As the situation went on, however, the fate of the banks and other financial institutions was increasingly linked with that of their debtors, for in practice the banks tended to renew their loans to most enterprises, even in order to finance interest payments, rather than demanding the fulfilment of the guarantees backing up the credits, either because many of the debtor enterprises were linked to the same economic group to which the bank in question belonged, or because the guarantees had lost much of their real value in view of the difficulties

¹⁶The case of many building projects was an illustration of this process. Once the sites had been purchased and construction work had been begun on the projects at the beginning of the year, this was continued in the second half of the year, even though the signs of a drop in demand were already evident, because their liquidation would have meant an enormous loss of capital and might even have compromised the solvency of the enterprises involved. In these circumstances, it seemed preferable to try to gain time by continuing the projects with additional bank financing.

¹⁷This rigidity of the "value" of assets took away one of the degrees of freedom to make the necessary adjustments in the second half of 1981, and through the accumulation of debts which the enterprises were less and less capable of paying it helped to increase the cost of the adjustment which would eventually have to be made in the long run.

Table 29

CHILE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1974	1975	1976	1977	1978	1979	1980	1981 ^a
A. Income and expenditure in national currency (Millions of current pesos of each year)								
1. Current income	1 775	7 902	25 204	57 601	100 422	160 699	251 023	310 660
Direct taxes	512	2 425	6 538	14 746	24 718	48 821	76 396	90 903
Indirect taxes	1 034	5 144	17 947	41 070	69 568	104 419	154 929	198 582
Non-tax revenue	229	363	719	1 785	6 136	7 459	19 698	21 175
2. Total expenditure	2 298	7 449	24 102	57 025	94 533	151 242	226 338	291 548
Servicing of public debt	35	88	289	1 055	1 236	7 822	15 849	2 860
Other expenditure	2 263	7 361	23 813	55 970	93 298	143 420	210 489	288 688
3. Deficit (1-2)	523	453 ^c	1 102 ^c	576 ^c	5 889 ^c	9 457 ^c	24 685 ^c	19 112 ^c
4. Deficit/total expenditure (percentage)	22.8	6.1 ^c	4.6 ^c	1.0 ^c	6.2 ^c	6.3 ^c	10.9 ^c	6.6 ^c
B. Income and expenditure in foreign currency (Millions of dollars at current prices)								
1. Current income	216	219	383	374	360	864	1 007	523
Copper	191	177	352	353	331	840	976	449
Other	25	42	31	21	29	24	31	74
2. Total expenditure	619	556	695	624	675	679	1 178	1 550
Service of public debt	338	388	544	445	507	524	958 ^d	1 270 ^e
Other expenditure	281	168	151	179	168	156	220	280
3. Deficit (1-2)	402	337	312	250	315	184 ^c	171	1 037
4. Deficit/total expenditure (percentage)	64.9	60.6	44.9	40.1	46.7	27.1 ^c	14.5	66.9
C. Consolidate income and expenditure (Millions of dollars at 1976 prices)								
1. Current income	2 391	2 360	2 313	2 499	2 688	3 104	3 582	3 840
Copper	248	193	352	314	253	509	519	219
Direct taxes	622	674	515	564	604	752	843	914
Indirect taxes	1 243	1 388	1 384	1 553	1 681	1 717	1 965	2 290
Non-tax revenue	278	105	62	68	150	126	255	417
2. Total expenditure	3 536	2 607	2 540	2 699	2 788	2 846	3 507	4 022
Servicing of public debt	482	447	566	435	418	446	710 ^f	651 ^g
Other expenditure	3 054	2 160	1 974	2 264	2 370	2 450	2 797	3 371
3. Deficit (1-2)	1 145	247	227	200	100	208 ^c	75 ^c	182
D. Coefficients (Percentages)								
4. Deficit/total expenditure	32.4	9.5	8.9	7.4	3.6	7.2 ^c	2.1 ^c	4.5
5. Deficit/gross domestic product	10.5	2.6	2.3	1.8	0.8	-1.7 ^c	-0.6 ^c	1.2
6. Current income/gross domestic product	21.9	24.8	23.5	23.1	23.0	24.5	26.3	26.7
7. Total expenditure/gross domestic product	32.4	27.4	25.8	24.9	23.8	22.8	25.7	27.9

Source: Ministry of Finance, Budget Office.

^aPreliminary figures^bIncluding revenue from customs duties and extrabudgetary adjustments.^cSurplus.^dIncluding advance payments of US\$ 422 millions.^eIncluding advance payments of US\$ 867 millions.^fIncluding advance payments of US\$ 346 millions at 1976 prices.^gIncluding advance payments of US\$ 423 millions at 1976 prices.

standing in the way of liquidating assets in a recessive situation. In this way, the banks collaborated in the postponement of the liquidation of assets and thus helped to keep the demand for loans and the rates of interest high. The inevitable consequence of this policy, however, was an increase in the amount of bad debts, which doubled in the course of the year and, by its end, were equivalent to over 25% of the capital and reserves of the banks.

What was most serious, however, was not so much the problem raised by the increase in the bad debts as that of the credits granted to enterprises linked to the banks themselves, and it was this latter problem which broke first and led to the intervention by the Superintendent of Banks, in November 1981, of four banks and four finance establishments. These eight financial intermediaries accounted for about 30% of the total loans by the financial system in national currency, and in turn, the enterprises belonging or connected to the owners of these financial institutions accounted for a large part of their total loans. Since, moreover, the enterprises in the same group used cross-guarantees, so that a single real guarantee could serve as a guarantee for various loans, their capacity for absorbing losses was only minimal and consequently this too compromised the solvency of the financial intermediaries, which were their main creditors.

In these circumstances, in order to avoid loss of confidence—at both the national and international level—in the entire financial system because of the possible bankruptcy of such important financial establishments, the Superintendent of Banks took over the affairs of these eight intermediaries and guaranteed the payment in full of their commitments to their creditors (domestic depositors and foreign banks). This financial backing involved the disbursement of over US\$ 600 million by the Central Bank and was the main factor explaining the increase in the domestic credit granted by this institution.

In spite of this intervention, however, mistrust in the solidity of the financial system continued to grow, since these events had revealed the irresponsible manner in which many such establishments operated: something which helped to significantly reduce the inflow of external capital during the last quarter of the year.

(b) Fiscal policy

In 1981 there was a slight slackening of the rigorous fiscal policy applied from 1974 onwards. Thus, after having registered in the previous two years the country's only two surpluses in the entire period 1950-1980, the central government accounts closed in 1980 with a small deficit equivalent to 4.5% of fiscal expenditure and a little over 1% of the gross domestic product (see table 29).

However, this variation in the end-year results of the public finances was due mainly to the Government's decision to make US\$ 870 million of advance service payments on the external debt, together with the drop of over 50% in the income contributed by the State copper corporation because of the sharp decline in the international price of copper. Thus, if the Government had not made this advance payment of part of the external debt servicing costs, the fiscal results would have shown an end-year surplus equivalent to 1.6% of the gross domestic product. Moreover, if the income from the copper industry had not gone down, this too would have generated a surplus, equivalent to approximately 0.7% of the product.

The decisive incidence of these two factors on the fiscal results was also reflected in the evolution of the income and expenditure in foreign currency. While the latter rose by almost one-third, due above all to the rapid growth in the external debt servicing, the former went down almost by half as a result of the decline in the income from the copper industry already referred to. In 1980 this income had amounted to slightly more than the total interest and principal payments in dollars, whereas in 1981 it was only sufficient to finance 35% of these payments.

In contrast with the heavy deficit registered on the transactions in foreign currency, those effected in pesos showed a surplus for the seventh year running. This was partly due to the rapid increase in tax revenue, whose growth rate of 25% was once again higher than that of the domestic product at current prices (20%). As in 1981 fiscal expenditure in national currency expanded even

faster than this, however, the absolute amount of the surplus went down sharply, and as a proportion of total expenditure it dropped from almost 11% in 1980 to less than 7%.

Partly because of this expansion of expenditure in local currency, and partly because of the even sharper rise (31%) in expenditure in dollars, the proportion of fiscal expenditure to the gross domestic product rose markedly for the second consecutive year and reached its highest level since 1974 (see table 29).

DOMINICA

1. Recent economic trends: Introduction and summary

Economic activity in Dominica during 1981 was affected fundamentally by the sequels of the natural disasters of 1979 and 1980. On 29 August 1979 the island was ravaged by Hurricane David, followed in that same year by Hurricane Frederick and in August 1980 by Hurricane Allen. Agriculture and housing were severely damaged, as well as roads and other main elements of the island's infrastructure, and the country was forced to rely on heavy inflows of international aid and grants for its social and economic reconstruction. These large and timely inflows seem to have averted excessive distress, and the GDP, which fell sharply in 1979, showed a partial recovery in 1980. Preliminary estimates suggest that there was a further increase in 1981, (see table 1).

Much emphasis was placed on support for agriculture, whose performance only started to improve during 1981, thanks partly to STABEX and other grants. Construction activity increased and efforts at economic diversification resulted in a higher contribution to GDP by the more dynamic though small manufacturing sector. The balance of payments continued to be unfavourable, and deficits had to be financed by foreign budget support and capital grants. Domestic revenues could not cover expenditure, and the termination of budget support grants from the United Kingdom, coupled with wage demands from the Civil Service Association, aggravated the already poor situation of government expenditure. The principal objectives of economic policy in Dominica in the period concerned have been to expand investment, to increase employment and productive capacity, to mitigate balance of payments problems, and to effect structural changes in public finances.

2. Trends in economic activity

(a) *Growth of the main sectors*

(i) *Agriculture.* Agriculture has always been the mainstay of Dominica's economy, accounting for almost 40% of total GDP before the hurricanes of 1979 and 1980. In the immediate post-hurricane period, production fell drastically, as major export crops were seriously damaged. It is estimated that the hurricanes damaged 75% of banana acreage, 40% of the grapefruit trees and a similar proportion of the coconut trees. Official statistics indicate that the sector's contribution to total GDP at constant prices stood at 23% in 1980 and 25% in 1981 (see table 2). Its contribution to exports and employment also fell. Thus, unprocessed agricultural products constituted over 60% of total exports in 1978 but amounted to only about 35% in 1980, and whereas 28% of registered employed persons worked in agriculture in 1978, by 1980 the figure was only 23%.

Since bananas are Dominica's single most important export crop, trends in total export earnings have been in line with those in this sub-sector. After contributing over 45% of export earnings in 1978 and 1979, banana earnings fell to approximately 30% in 1980 (see table 6 below), when banana production was 41% below the level of 1979. As a result of programmes initiated by the Dominica Banana Growers' Association (DBGA), the 1981 output has shown signs of recovery, (see table 3), although official sources report that the 34 750 ton target for 1981 was not actually reached and that in fact only about 22 000 tons were produced on about 10 000 acres of land. Apart from the smaller acreage and low productivity per acre, farmers faced a situation of price disincentives. Furthermore in 1981 the DBGA was forced to impose strict quality measures and as much as 40% of the bananas produced were rejected by the Association, resulting in still lower exports.

Coconut production, which has been second in importance to banana-growing over the years, also declined in 1980 and the nine million nuts produced then were only half the amount produced in 1979. However, a replanting programme financed by the Canadian International Development Agency (CIDA) has begun with the aim of replanting 3 000 acres by 1982. Because of the reduced crop of nuts, industrial problems, and an illicit trade in coconuts to the French islands, expansion of copra production was impossible.

Citrus production has followed the general trend of the agricultural sector as a whole. After the hurricane in 1979, production of limes, grapefruit and oranges fell by about 50% and has since shown only slight improvement. Although recent estimates indicate that lime production increased in 1980 and 1981, the export earnings from lime juice fell by over 90% in 1980. It is claimed that during 1981 there was some improvement. Projects for the rehabilitation of the existing 2 000 acres of lime trees and expansion to 1 000 more have not yet been financed. The Government has recently purchased the lime processing plant from private interests and has made initial steps towards rehabilitation. There were no significant changes in grapefruit and orange production in 1980 and 1981, but there have been some marketing difficulties. Grapefruit, which is exported mainly to Europe, obtained premium prices for only eight weeks during September and October, when supply from the major producing countries was low. The 1981 market is estimated to have been smaller than anticipated and the situation was further aggravated by low prices, competition from Cuba and unfavourable exchange rates between the pound sterling and the East Caribbean dollar. A loan from the Caribbean Development Bank has been earmarked for the expansion of packaging facilities.

A major drawback to the sectors' performance has been the serious financial position of the DBGA. A number of funding agencies have promised finance but the adequacy of the help offered is questionable. The Dominican Agricultural Marketing Board (DAMB) has not been very effective in

Table 1

DOMINICA: MAIN ECONOMIC INDICATORS

	1978	1979	1980	1981 ^a
A. Basic economic indicators				
Gross domestic product at factor cost (Millions of EC\$ at 1977 prices)	101.9	81.4	88.3	96.2
Per capita gross domestic product (East Caribbean dollars at 1977 prices)	1 249	984	1 055	1 144
Population (thousands of inhabitants)	81.6	82.7	83.7	84.1
Growth rates				
B. Short-run economic indicators				
Gross domestic product	...	-20.3	8.7	9.0
Per capita gross domestic product	...	-21.2	7.2	8.4
Terms of trade	0.6	-1.1	-6.6	...
Current value of exports of goods	32.8	-40.8	3.6	93.6
Current value of imports of goods	29.9	-21.9	114.7	6.3
Consumer price index				
December-December	9.3	34.1	21.4	8.1
Variation between annual averages	7.7	17.9	32.8	13.3
Wages and salaries	-33.7	32.4	67.6	3.4
Current income of government ^b	9.6	26.2	30.7	2.9
Total expenditure of government ^b	-13.2	59.8	52.7	71.0
Fiscal deficit ^b	...	861.9	121.6	196.4

Source: CEPAL, on the basis of official data..

^aPreliminary figures.

^bData relate to fiscal year (1st July - 30 June of following year).

Table 2

DOMINICA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of East Caribbean dollars at 1977 prices				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1977	1981 ^a	1979	1980	1981 ^a
Total gross domestic product	101.9	81.4	88.3	96.2	100.0	100.0	-20.3	8.7	9.0
Goods	53.0	38.2	41.6	47.4	50.8	48.6	-28.0	9.1	14.3
Agriculture	37.5	23.7	20.5	25.0	35.6	25.2	-37.0	-13.6	18.8
Livestock	1.1	1.3	1.5	1.6	1.1	1.7	23.8	13.1	9.5
Fishing	2.5	1.5	2.6	2.7	2.5	2.8	-39.8	77.0	4.6
Mining	1.1	0.7	0.7	0.7	1.1	0.8	-32.1	-	2.8
Manufacturing	5.5	4.5	5.3	5.4	4.3	5.6	-18.9	18.8	2.1
Construction	5.3	6.5	11.0	12.0	6.2	12.5	21.8	69.6	9.3
Basic services	7.7	7.1	7.1	8.1	7.6	8.4	-8.5	-	13.6
Electricity and water	1.9	1.5	1.0	1.3	1.9	1.3	-22.1	-34.5	28.9
Transport and communications	5.8	5.6	6.1	6.8	5.7	7.1	-4.1	9.1	11.1
Other services	41.2	36.1	39.7	41.5	41.6	43.1	-12.6	10.1	4.4
Wholesale and retail trade	10.8	7.2	9.4	10.6	9.5	11.0	-33.6	31.2	12.6
Hotels and restaurants	1.3	1.0	0.9	1.0	1.2	1.0	-25.6	-9.1	8.9
Banking and insurance	3.9	4.2	4.3	4.6	3.7	4.8	9.1	2.9	6.5
Real estate and ownership of dwellings	5.0	3.8	5.3	5.3	5.6	5.5	-24.2	38.7	-
Government services	21.9	21.9	21.9	22.5	23.1	23.4	-	-	2.6
Other services	1.1	1.0	1.0	1.0	1.1	1.0	-12.8	-	2.1
Imputed banking services charges	-2.8	-3.0	-3.1	-3.5	-2.6	-3.6	9.0	3.0	12.1

Source: Data supplied to CEPAL.

^a Estimates.

handling domestic crops, especially because of poor management. Until proper management is established the marketing of agricultural goods will remain a bottleneck.

Livestock production continued to lag behind demand, since there has been a general lack of interest in financing projects in this area. A small programme has been started involving stud servicing, fattening and importation of new breeds of sheep, goats and pigs.

(ii) *Manufacturing*. In absolute and relative items, this sector is very small, as is evidenced by its modest contribution to overall GDP and employment. Between 1978 and 1981 its share of total GDP has fluctuated between 5 and 6%, and there has been a noticeable decline in the number of people employed in the sector during this period.

Manufacturing activity in Dominica has traditionally centered around labour-intensive industries employing simple technology and consuming little energy. The major enterprises mostly process agricultural products (coconuts and citrus), but there is a promising garment industry in addition to small establishments producing rum, cigarettes and soft drinks. The sector's GDP increased substantially (about 19%) in 1980 and by 2% in 1981. Much of this growth is attributable to soap production (see table 4). After declining by 30% in 1979, soap production increased by 138% in 1980 and by a further 20% in 1981. Although the production of coconuts, which constitute a major input of soap manufacture, has been negatively affected by the hurricanes, the importation of tallow from the United States has proved a very economical substitute and was responsible for the relatively high rates of growth in the production of soap in 1980 and 1981.

The Dominica Government has embarked on an enthusiastic industrial promotion campaign to complement its efforts in agriculture. Through the new Industrial Development Corporation (IDC) it has been attempting to encourage the private sector to play a more active part. To this end, new legislation is being drafted and the IDC has been made responsible for encouraging and assisting both local and foreign investors in establishing labour-intensive assembly operations, industries to produce agricultural inputs, and the development of the country's marine resources to meet domestic as well as foreign demand.

The IDC's efforts since 1979 began with the provision of infrastructure. Two buildings have been constructed to house garment industries, and plans have been made for the establishment of a tyre-retreading industry, firms producing mattresses and pepper sauce, a multipurpose agro-processing unit, the production of ornamental plants in a joint venture with Venezuela, and the shipping of fresh water to the Middle East.

(iii) *Construction.* Construction activity increased during 1980 and 1981 on account of several emergency rehabilitation projects. Thus, in 1980 the construction GDP rose by approximately 70%, and in 1981 it rose a further 9%. The volume and value of trade in building materials grew significantly. A further reflection of the sharp increase in construction activity is seen from the distribution of loans by commercial banks. At the end of 1979, loans outstanding to this sector stood at EC\$ 785 000¹—some 38% below the figure for the previous year—but at the end of 1980

Table 3
DOMINICA: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Production of main crops (thousands of tons)							
Bananas	49.0	23.2	13.7	34.8	-52.8	-40.8	153.3
Coconuts ^b	20.8	19.9	9.6	10.5	-4.3	-51.9	10.0
Limes	8.5	3.4	5.1	5.3	-60.0	50.0	3.1
Grapefruit	10.0	6.0	6.4	6.9	-40.0	5.6	8.6
Oranges	3.2	1.9	1.9	2.0	-40.0	-	2.0
Dasheen	13.9	10.4	10.4	10.6	-25.6	0.6	1.7
Tania	6.4	5.2	6.5	6.8	-19.4	25.8	4.2
Yam	4.1	2.8	4.1	4.4	-30.7	43.8	6.7
Plantains	2.8	2.1	1.2	1.3	-25.2	-40.9	10.0
Other crops (tons)							
Mangoes	239	96	120	126	-59.8	25.0	5.0
Cocoa	706	388	388	388	-45.0	-	-
Sweet potatoes	1 404	1 285	1 452	1 422	-8.5	13.0	-2.1
Cabbage	948	849	996	1 036	-10.4	17.3	4.0
Cucumbers	1 626	1 723	2 068	2 276	8.4	20.0	10.0
Cassava	1 049	734	763	774	-30.0	4.0	1.4
Coffee	269	155	148	152	-42.4	-4.5	2.7
Pumpkins	366	387	447	469	5.7	15.5	4.9
Indicators of livestock production							
Meat production (tons)							
Beef	159	162	163	204	1.9	0.6	25.2
Pork	161	164	191	227	1.9	16.5	18.8
Mutton	53	53	53	55	-	-	3.8
Poultry meat	28	27	25	27	-3.6	-7.4	8.0

Source: Data supplied to CEPAL.

^a Estimates.

^b Millions of nuts.

¹ The exchange rate of the East Caribbean dollar is US\$ 1.00 = EC\$ 2.70.

Table 4

DOMINICA: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Production of some important manufactures							
Laundry soap ^b	2 712	1 933	4 420	4 950	-28.7	28.7	12.0
Toiled soap ^b	699	466	1 289	1 946	-33.3	176.6	51.0
Animal feed	784	865	210	218	10.3	-75.7	3.8
Copra ^b	2 710	2 747	847	743	1.4	-69.2	-12.3
Crude coconut oil ^c	1 799	1 945	554	503	8.1	-71.5	-9.2
Edible coconut oil ^c	698	450	127	95	-35.5	-71.8	-25.2
Rum ^c	...	404	527	...	...	30.4	...
Soft drinks ^d	287	240	262	...	-16.4	9.2	...
Cigarettes ^b	39	30	25	25	-23.1	-16.7	0.0
Pipe tobacco ^b	5	5	4	4	0.0	-20.0	0.0
Preserves ^b	...	210	336	...	...	60.0	...
Electricity ^e	17 358	12 131	6 701	...	-30.1	-44.8	...

Source: Data supplied to CEPAL.

^aPreliminary figures.

^bTons.

^cThousands of litres.

^dThousands of cases.

^eThousands of KWH.

these loans stood at EC\$ 1 526 000 and by the end of September 1981 the figure was EC\$ 1 606 000 (see table 12 below).

Construction was oriented towards the rehabilitation of priority areas such as roads and houses, and further plans were made for the improvement of main roads and agricultural feeder roads. Designs have been completed for the reconstruction of the port and bridges, while the reconstruction of public buildings is still at the concept stage. The Caribbean Development Bank (CDB) has been approached for help in the construction of factory shells to accommodate new enclave industries. Considerable importance has been assigned to the maintenance, reconstruction and development of educational, health and housing facilities, for which negotiations are still in progress.

(iv) *Energy.* Dominica's relatively low dependence on imported petroleum makes it somewhat unique among the smaller Caribbean islands. Its precipitous topography and abundant forest resources afford it the opportunity of economically generating power from hydroelectric installations, wood and charcoal. Approximately 90% of power needs are satisfied by hydroelectric installations.

After the hurricanes, electricity consumption fell as a result of the destruction of installations and transmission lines. Power was subsequently diesel-generated until the facilities were restored during 1981. Consequently the sector's GDP fell in 1979 and 1980 by 22% and 34.5% respectively, but by the end of 1981 it had increased by 29%.

During 1980 imports of petroleum products increased and so did prices, increases in which were felt immediately by consumers. There were substantial increases in import duties as well as in the retail price of gasoline.

There has been some speculation about Dominica's potential as regards alternative sources of energy and studies have been made of the island's potential for hydro and thermal energy generation, but to date no projects have materialized.

3. The external sector

(a) *Tourism*

Compared with most other Caribbean islands, tourism in Dominica remains largely under-developed. In relation to other economic activities, this sector has always been very small and can still be considered embryonic. Moreover, the natural disasters of 1979 and 1980 thwarted efforts to develop what little tourism potential existed at that time.

As far as the total GDP is concerned, this sector's contribution has consistently totalled about 1 to 2%. The total number of visitors declined in 1980 and 1981, although the drop was less rapid in 1981, when the greatest decline was in the category of excursionists (see table 5). At the same time that the total number of visitors has gone down, so too has visitor expenditure, which fell by about 11.5% in 1980. To date, no data are available for 1981. The hurricane destruction of some of the major hotels was responsible for a 23% reduction in the number of beds, but there are signs of rehabilitation.

Despite this sector's limited potential, the Government of Dominica and the Dominica Tourist Board (DTB) recognize that there is room for expansion. The Government's tourism strategy attempts to integrate tourism into national life, to ensure better spending of tourism funds, to develop new and existing tourist attractions, to establish more efficient air links and deepwater dock facilities and to seek further impetus by encouraging foreign investment in the sector.

During 1980 and 1981 the Board spent most of its funds on overseas promotion. Local efforts included motivation surveys, heightening of local awareness, hospitality training seminars, revival and support of folkloric entertainment and maintenance of natural beauty spots. The Board is fairly confident about the prospects for the industry.

(b) *Trade and payments*

No official balance of payments statistics have been prepared by Dominica. In spite of the 4% increase in export earnings in 1980, the trade deficit almost tripled because of the heavy foreign exchange outflow due to increased imports made necessary by the rehabilitation and reconstruction efforts for coping with the current emergency situation (see tables 6, 7 and 9).

Table 5
DOMINICA: SELECTED TOURIST INDICATORS

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981
Total visitors ^b	35.6	28.1	24.8	23.2	-21.1	-11.7	-6.3
Stopover visitors	21.2	15.5	14.3	15.2	-27.0	-7.4	6.1
Cruise-ship visitors	7.6	7.8	7.4	5.8	1.8	-5.1	-21.3
Excursionists	6.8	4.8	3.1	2.2	-28.4	-36.1	-28.2
Average length of stay of stopover visitors (days)	...	3	3	3	...	-	-
Hotel and guest house beds	380	410 ^c	315	353	7.9	-23.2	12.1
Estimated visitors' expenditure ^d	6 266	6 287	5 562	...	0.3	-11.5	...

Source: Ministry of Finance, Statistical Division, *Quarterly Bulletin of Statistics*, 4th Quarter 1981, and data supplied to CEPAL.

^aPreliminary figures.

^bThousands.

^cUntil hurricane David, 29 August 1979.

^dThousands of East Caribbean dollars.

Table 6

DOMINICA: EXPORTS OF GOODS

	Thousands of East Caribbean dollars			Percentage breakdown		Growth rates	
	1978	1979	1980	1978	1980	1979	1980
Total exports	42 891	25 391	26 302	100.0	100.0	-40.8	3.6
Main exports							
Bananas	24 748	11 920	7 977	57.7	30.3	-51.8	-33.1
Citrus fruits	2 745	884	1 243	6.4	4.7	-67.8	40.7
Coconuts	718	480	55	1.7	0.2	-33.1	-88.5
Lime juice	727	419	26	1.7	0.1	-42.6	-93.7
Grapefruit juice	952	638	...	2.2	...	-32.9	...
Coconut oil	482	1 750	1 008	1.1	3.8	263.0	-42.4
Bay oil	1 477	1 306	265	3.4	1.0	-11.6	-79.8
Toilet soap	1 868	2 063	5 776	4.4	22.0	10.4	180.0
Laundry soap	3 168	2 618	7 336	7.4	27.9	-17.4	180.2
Other exports and re-exports	6 006	3 313	2 616	14.0	9.9	-44.8	-21.0

Source: Data supplied to CEPAL.

Table 7

DOMINICA: IMPORTS OF GOODS CIF, BY SITC SECTIONS

	Thousands of East Caribbean dollars			Percentage breakdown		Growth rates		
	1978	1979	1980	1978	1980	1978	1979	1980
Total	76 770	59 970	128 730	100.0	100.0	29.9	-21.9	114.7
Food and live animals	22 334	15 012	25 695	29.1	20.0	32.8	-32.8	71.2
Meat and meat preparation	4 834	3 143	4 350	6.3	3.4	...	-35.0	38.4
Meat and flour (wheat)	3 355	2 576	4 586	4.4	3.6	...	-23.2	78.0
Milk and cream	2 808	2 290	3 071	3.7	2.4	...	-18.4	34.1
Margarine and lard	1 006	792	1 053	1.3	0.8	...	-21.3	32.9
Others	10 331	6 211	12 635	13.5	9.8	...	-39.9	103.4
Beverages and tobacco	3 189	3 509	5 076	4.2	3.9	24.1	10.0	44.6
Alcoholic beverages	2 380	2 195	3 475	3.1	2.7	...	-7.8	58.3
Others	809	1 314	1 601	1.1	1.2	...	62.4	21.8
Crude materials	1 331	1 488	6 355	1.7	4.9	41.5	11.8	327.2
Mineral fuels	4 471	3 738	11 346	5.8	8.8	16.6	-16.4	203.5
Animal and vegetable oils	1 305	1 060	4 389	1.7	3.4	6.1	18.7	313.9
Chemicals	9 623	8 055	14 972	12.5	11.6	26.9	-16.3	85.9
Fertilizers	2 420	2 994	3 749	3.2	2.9	...	23.7	25.2
Basic manufactures	16 224	11 292	26 078	21.1	20.3	22.4	30.4	130.9
Machinery and transport equipment	12 438	12 163	25 935	16.2	20.1	78.2	-2.2	113.2
Passenger motor vehicles	4 455	5 542	10 528	5.8	8.2	...	24.4	90.0
Miscellaneous manufactures	5 855	3 652	8 885	7.6	6.9	29.3	-37.6	143.3

Source: Data supplied to CEPAL.

Preliminary data for 1981 indicate that export earnings almost doubled. No statistics are available to determine the source of this increase, but it would appear that soap has become a major contributor, since export earnings from this product almost trebled in 1980 and it has been suggested that this trend continued in 1981. Imports in 1981 increased by about 6%.

Dominica's major trading links are still with the United Kingdom and United States, which together supplied 50% of its imports and absorbed 36% of its exports (see table 8). Trade within the region is conducted mainly with the more developed CARICOM countries, with Dominica being especially dependent on Trinidad and Tobago for its imports and on Jamaica for its exports.

Table 8

DOMINICA: TRADE, BY MAJOR TRADING PARTNERS

	Thousands of East Caribbean dollars			Percentage breakdown		Growth rates	
	1978	1979	1980	1978	1980	1979	1980
Exports							
Total	42 891	25 391	26 302	100.0	100.0	-40.8	3.6
United Kingdom	28 843	14 094	9 118	67.2	34.7	-51.1	-35.3
United States ^a	1 651	1 490	226	3.8	0.9	-9.8	-84.8
CARICOM	9 559	8 090	16 171	22.3	61.5	15.4	99.9
Others	2 838	1 717	787	6.6	3.0	-39.5	-54.2
Imports							
Total	76 770	59 970	128 730	100.0	100.0	-21.9	114.7
United Kingdom	20 659	15 017	29 775	26.9	23.1	-27.3	98.3
United States ^a	13 544	9 885	34 473	17.6	26.8	-27.0	248.8
Canada	3 990	2 982	5 343	5.2	4.2	-25.3	79.2
Latin America ^b	2 127	1 414	3 333	2.8	2.6	-33.5	135.7
EEC	4 144	3 128	6 712	5.4	5.2	-24.5	114.6
CARICOM	22 052	16 636	34 499	28.7	26.8	-24.6	107.4
Others	10 255	10 909	21 308	13.4	16.6	6.4	95.3

Source: Data supplied to CEPAL.

^aIncludes Puerto Rico and US Virgin Islands.

^bContinental Latin America.

Table 9

DOMINICA: MAIN FOREIGN TRADE INDICATORS

	1978	1979	1980
Growth rates			
Exports of goods			
Value	32.8	-40.8	3.6
Volume	22.9	-48.1	-17.4
Unit value	8.9	11.2	24.4
Imports of goods			
Value	29.9	-21.9	114.7
Volume	14.8	-27.3	71.6
Unit value	8.2	12.5	33.4
Indexes (1977 = 100)			
Terms of trade	100.6	99.5	92.9
Purchasing power of exports	123.6	63.5	49.0

Source: Ministry of Finance, Statistical Division, *Annual Overseas Trade 1979*; and data supplied to CEPAL.

Table 10

DOMINICA: EVOLUTION OF DOMESTIC PRICES

	1979	1980	1981
Variation December to December			
Consumer price index	34.1	21.4	8.1
Food	45.4	24.6	6.6
Housing	27.3	13.9	1.3
Fuel and light	36.9	36.8	9.1
Services	21.9	17.5	16.6
Variation between annual averages			
Consumer price index	17.9	32.8	13.3
Food	...	37.6	15.8
Housing	...	34.7	2.8
Fuel and light	...	70.5	6.9
Services	...	26.7	14.4

Source: Data supplied to CEPAL.

"Due to the devastation caused by hurricane David, it was not possible to compile the index for September and October 1979.

4. Prices, wages and employment

World price developments are normally the main determinant of price movements in Dominica. Since the latter half of 1979, however, price increases have been largely a result of dislocation and shortages ensuing from the hurricanes, and a system of price controls that is not enforced.

The annual average for the consumer price index increased by 33% in 1980 compared with 18% in 1979; the highest increase since 1974. In 1981 the rise was of the order of 13% (see table 10). Higher food prices and energy costs contributed significantly to these increases. In addition to the scarcity of food and its high import prices, the island lost some of its hydroelectricity generating capacity, and fuel and light costs were 70% higher during the greater part of 1980. During 1981 food prices rose by 16%, and the hydroelectric plants were repaired. Notable declines also occurred in the housing and beverages and tobacco sections, with the result that the rate of inflation went down during 1981.

Dominica provides no official index from which changes in wages can be measured. Wage agreements during this period were influenced by the Government's grant of an average 82% wage increase to civil servants in December 1979. In December 1980 a new wage agreement was made between the Government and the Civil Service Association whereby public servants would receive 10% increases each year from 1982 through 1984. Moderation in the remuneration practices of the private sector was called for in order to help contain the rate of cost-pushed inflation.

Although complete data on employment are not available, official statistics collected by the Social Security Scheme indicate that the services sector accounted for almost 50% of total employed persons in 1980, agriculture ranking second with an employment rate of 23%. It is to be noted that the statistics collected by the Social Security Scheme exclude own-account workers and thus result in an undercount, possibly in both the services sector and the agricultural sector, since it is thought that a large proportion of the agricultural labour force consists of own-account workers. If they were included, the relative importance of agriculture in the total labour force might well surpass that of any other sector. As a consequence of the hurricanes of 1979 and 1980, employment in the commerce and hotel sector fell from 2 651 in 1979 to 1 921 in 1980.

5. Monetary and fiscal policy

(a) *Monetary policy*

The absence of a National Central bank in Dominica makes it difficult to measure the money supply accurately. The East Caribbean Currency Authority, which acts as a regulator of currency for the Less Developed Countries (LDCs), estimates that quasi-money increased by 14% in the twelve months up to the end of December 1980. Data available to the end of September 1981 put the total amount at EC\$ 72 million. The relative increases in both time and savings deposits hint at an increase in the money supply (see table 11).

An analysis of commercial bank credit through data on loans and advances outstanding indicates generally higher amounts outstanding at the end of September 1981 than at the end of 1980. Indications are that apart from the government and the household sectors, the distributive sector and the agricultural sector were the major recipients of bank credit (see table 12).

(b) *Fiscal policy*

Official estimates of government fiscal operations during 1980 and 1981 reveal heavy increases in total revenue and expenditure. While the current account deficit for the fiscal year 1981/1982 grew by over 280%, the total fiscal deficit rose by almost 200% (see table 13).

Current government revenue, most of which came from consumption taxes, showed minimal growth during the fiscal year 1981/1982. A general strike among civil servants ended with the Government granting an 82% increase in personal emoluments over three years in December 1979. Current expenditure during the fiscal year 1980/1981 increased by about 27%.

In the wake of the hurricane devastation in 1979 and 1980, government transfers to statutory bodies more than doubled, but by the end of 1980 the Government decided to monitor more closely the activities of these bodies in order to minimize overspending. The government sectors share of the GDP at current prices was 22% (EC\$ 32 million) in 1980.

Heavy concentration on rehabilitation projects financed by external sources has increased capital outlays and this is expected to continue in the immediate future. Capital grants finance virtually the entire investment effort by the government.

Table 11
DOMINICA: MONETARY BALANCE
(Millions of East Caribbean dollars)

	Balance at end of:					Growth rates		
	1978	1979	1980	1980 ^a	1981 ^a	1979	1980	1981 ^b
Deposits	58.9	83.2	87.1	88.3	95.1	41.1	4.7	7.7
Demand	12.6	25.5	21.7	22.7	23.3	102.4	-15.2	2.5
Time	12.3	15.4	17.5	17.7	21.4	25.1	13.6	21.3
Savings	34.0	42.2	47.9	47.9	50.3	24.3	13.5	5.2
Loans and advances as a percentage of total deposits	...	61.5	78.6	75.0	79.4	...	27.8	5.9

Source: East Caribbean Currency Authority, *Commercial Banking Statistics*, December 1981, and data supplied to CEPAL.

^a As of September.

^b As of September 1981 with respect to same period in 1980.

Table 12

DOMINICA: SECTORAL DISTRIBUTION OF
COMMERCIAL BANK CREDIT

	Thousands of East Caribbean dollars				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^b
Agriculture	4 169	12 101	10 985	11 165	100.9	-9.2	-1.2
Manufacturing	3 146	2 973	4 791	4 170	-5.5	61.2	-21.0
Distributive trades	9 361	8 300	10 273	12 443	-11.3	23.8	30.5
Tourism	2 991	2 632	2 292	1 972	-12.0	-12.9	-7.5
Transportation	2 348	2 887	5 552	6 959	23.0	92.3	38.0
Public utilities (gas, electricity, telephones)	49	193	212	298	200.9	9.8	46.8
Government and other statutory bodies	8 219	9 277	13 836	17 466	12.9	49.1	23.2
Building and construction	1 255	785	1 526	1 606	-37.5	94.4	13.1
Personal loans	9 297	9 462	14 381	15 465	1.8	51.9	28.4
Other advances	1 431	2 581	4 644	3 976	80.4	80.0	-21.8
Total loans and advances	42 266	51 191	68 492	75 520	21.1	33.8	14.1
Long-term loans as a percentage of total loans	36.3	33.5	49.2	43.9	-7.7	46.9	-1.3

Source: East Caribbean Currency Authority, *Commercial Banking Statistics*, December 1981, and data supplied to CEPAL.

^a As of September.

^b As of September 1981 with respect to same period 1980.

Table 13

DOMINICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE^a

	Thousands of East Caribbean dollars				Growth rates		
	1978/ 1979	1979/ 1980	1980/ 1981 ^b	1981/ 1982 ^c	1979/ 1980	1980/ 1981 ^b	1981/ 1982 ^c
1. Current revenue	34 391	43 395	56 698	58 354	26.2	30.7	2.9
Tax revenue	23 036	26 741	38 900	48 750	16.1	45.5	25.3
Direct	5 431	8 212	12 700	14 950	51.2	54.7	17.7
Indirect	17 605	18 525	26 200	33 800	5.2	41.4	29.0
On foreign trade	4 414	4 001	6 225	8 300	-9.4	55.6	33.3
Other current revenue	11 355	16 654	17 798	9 604	46.7	6.9	-46.0
2. Current expenditure	32 784	45 759	58 082	63 660	39.6	26.9	9.6
Wages and salaries	14 913	19 757	33 121	34 254	32.5	67.6	3.4
Other	17 871	26 002	24 961	29 406	45.5	-4.0	17.8
3. Savings on current account (1 - 2)	1 607	-2 364	-1 384	-5 306	-247.1	41.5	283.4
4. Capital expenditure	3 051	11 526	29 404	85 930	277.7	155.1	192.2
5. Total expenditure (2 + 4)	35 835	57 285	87 486	149 590	59.9	52.7	71.0
6. Fiscal deficit surplus (1 - 5)	-1 444	-13 890	-30 782	-91 236	861.9	121.6	196.4

Source: Government of Dominica, *Estimates of the Commonwealth of Dominica 1981/1982*, and data supplied to CEPAL.

^a Data for fiscal year 1st July - 30 June.

^b Preliminary figures.

^c Estimates.

Dominica's fiscal development has always been difficult because of the contrast between its limited revenue resources and its costly expenditure programmes. Thus the 1980/1981 and 1981/1982 budgets embody concerted efforts to secure an improvement in public finances. Measures to restrain spiralling current expenditure include:

(1) A new wage policy whereby increases in public sector wages will be spread over a period of three years, rising by 10% per annum. A call has been made for moderation in trade union demands and private sector wage adjustments; (2) a freeze in public sector recruitment, a cut in travel allowances and encouragement of early retirement; (3) improvement in the management and accounting practices of statutory bodies.

Revenue measures include:

(1) Increased import duties and consumption taxes, especially on lubricating oils, beer and soft drinks; (2) removal of import duty concessions on building materials and vehicles; (3) introduction of taxes on telephone and telegraph services, and increases in postal rates in airport landing taxes, and property and land taxes. This package is expected to help to secure the improvements in the financial situation necessary for sustained efforts in production and investment. Such improvement is especially important because the United Kingdom ended its budget support payments in 1981.

ECUADOR

1. Recent economic trends: Introduction and summary

The signs of a worsening economic situation which were observable in 1980 gathered intensity and scope in 1981. Thus, the growth rate of the gross domestic product, which had been going down steadily since 1976, reached an unsatisfactory level of 4.3% in 1981, so that the per capita product rose barely 1%. Moreover, domestic prices increased by 18% (the biggest rise since 1974); the fiscal deficit soared by 142%; the balance of payments current account deficit went up by 52%, and international reserves fell by US\$ 380 million (see table 1 and figure 1).

In addition to the continuation in 1981 of the downward trend in some important economic variables, both domestic and external, which had accompanied the loss of dynamism in recent years, several unfortunate events also took place—such as the border conflict with Peru and the death of President Roldós—which increased the uncertainty regarding the expectations of the economy and contributed to the maladjustment and weakening of the various components of total supply and demand.

The loss of dynamism of the product was most evident in the case of gross income, which increased by only about 3% owing to the appreciable worsening in their terms of trade.

As regards the evolution of production activities during the year, a marked slackening was observed in the growth of basic services, commerce and government services. Moreover, the recession in construction which had begun in 1979 became more acute.

Only the continuation of irrigation, electricity, road construction, housing and other public sector programmes, to the extent that the limited financial resources available to the government and its enterprises so permitted, made it possible for at least a small increase in construction to be registered. In contrast, private construction appreciably reduced its level of activity, and employment in the sector declined.

In contrast, agriculture recorded fairly satisfactory results, while the production of petroleum rose and manufacturing managed to maintain a relatively high rate of growth, although lower than the exceptionally high rate (12%) registered between 1972 and 1978.

External trade relations were also involved in the general weakening of the economy. Exports of goods and services rose barely 3%, in contrast with the much larger increments obtained in previous years. External sales in particular were adversely affected by the drop in the prices of such important commodities as coffee and cocoa and, to a lesser degree, petroleum. They were also affected by the restrictions and closures of some external markets due to the recession and by an 8% revaluation of the sucre in real terms in relation to the currencies of purchasing countries, which caused Ecuadorian exports to lose some of their competitiveness.

Imports, meanwhile, grew at twice the rate of exports, although they declined in terms of volume. This increased the trade deficit, and as a result of this and of a growing outflow of profit and interest payments, the current account deficit rose from US\$ 616 to US\$ 933 million.

Added to the bigger current account deficit was a smaller inflow of capital, reflected in the drop of US\$ 380 million in the international reserves. This situation had not arisen since 1975, when the reserves declined by only US\$ 65 million.

At the same time, the long-term external debt totalled US\$ 4 820 million at the end of the year—US\$ 770 million more than at the end of 1980.

The sluggish growth of economic activities during the year was accompanied by an intensification of the rate of inflation (which rose from less than 15% in 1980 to 18% in 1981); an

insufficient increase of 12% in the means of payment, which accentuated the lack of liquidity in the economy; and a sharp increase in the fiscal deficit, which doubled its percentage of total expenditure (see table 1).

2. Trends in economic activity

(a) *Global supply and demand*

In the last three years the rate of growth of domestic economic activity has notably declined. The gross domestic product, which increased (with certain ups and downs) at the exceptionally high average rate of nearly 10% annually between 1971 and 1978, gradually reduced its progress in the following years and grew by only 4.3% in 1981. This evolution was accompanied in both 1980 and 1981 by slight decreases in the volume of goods and services imported, which contrasted with the rapid expansion of the volume of imports up to then and helped to slow the growth of global supply of goods and services in those years to only 3.7% and 3.4%, respectively (see table 2).

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	4 284	4 679	4 985	5 313	5 583	5 853	6 104
Population (millions of inhabitants)	6.89	7.10	7.32	7.54	7.78	8.02	8.28
Per capita gross domestic product (dollars at 1970 prices)	622	659	681	704	718	730	737
	Growth rates						
B. Short-run economic indicators							
Gross domestic product	5.6	9.2	6.5	6.6	5.1	4.8	4.3
Per capita gross domestic product	2.6	5.9	3.4	3.4	1.9	1.6	1.0
Gross income ^b	1.1	11.5	6.7	5.7	8.3	5.7	2.9
Terms of trade (goods and services)	-16.4	11.8	4.9	-8.4	17.9	9.5	-6.0
Current value of exports of goods and services	-15.1	27.9	12.2	7.0	42.7	16.8	3.0
Current value of imports of goods and services	17.7	3.5	34.4	21.6	22.5	10.7	6.4
Consumer prices							
December - December	13.2	13.1	9.8	11.7	9.0	14.5	17.9
Variation between annual averages	15.3	10.7	13.0	11.7	10.3	13.0	16.4
Money	10.8	31.1	23.1	9.8	27.3	28.3	11.5
Current income of government	8.6	18.5	12.3	15.8	21.1	62.8	1.4
Total expenditure of government	3.5	46.6	16.9	17.2	7.8	63.7	27.6
Fiscal deficit/total expenditure of government ^c	5.0	23.2	26.2	27.1	18.1	18.6	35.3
	Millions of dollars						
C. External sector							
Trade balance (goods and services)	-185	79	-208	-487	-252	-130	-235
Balance on current account	-239	-29	-377	-730	-647	-616	-939
Variation in net international reserves	-65	224	146	13	87	291	-381
External debt ^d	513	693	1 263	2 679	3 343	4 045	4 816

Source: ECLA, on the basis of official figures.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cPercentages.

^dLong-term disbursed public and private debt.

Table 2

ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	6 880	7 134	7 373	114.6	120.8	5.5	3.7	3.4
Gross domestic product at market prices	5 583	5 853	6 104	100.0	100.0	5.1	4.8	4.3
Imports of goods and services ^b	1 297	1 281	1 269	14.6	20.8	7.2	-1.2	-0.9
Total demand	6 880	7 134	7 373	114.6	120.8	5.5	3.7	3.4
Domestic demand	6 273	6 556	6 783	104.2	111.1	5.4	4.5	3.5
Gross domestic investment	1 132	1 308	...	21.6	...	-2.5	15.6	...
Gross fixed investment	1 010	1 082	1 090	19.9	17.9	-0.6	7.1	0.7
Changes in stocks	122	226	...	1.7	...	...	...	...
Total consumption	5 141	5 248	...	82.6	...	7.3	2.1	...
General government	787	846	...	10.1	...	5.1	7.6	...
Private	4 354	4 402	...	72.5	...	7.8	1.1	...
Exports of goods and services ^b	607	578	590	10.4	9.7	5.9	-4.8	2.1

Source: ECLA, on the basis of figures supplied by the Central Bank of Ecuador.

^a Preliminary figures.

^b The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

On the other hand, the volume of exports of goods and services, which in 1980 had fallen significantly, recovered partially in 1981, when it rose by about 2%. In 1981 the expansion of domestic demand continued to weaken, growing by only 3.5% after increasing at an average rate of 5% in the previous two years and an average of approximately 12% between 1971 and 1978.

Investment was the component of expenditure most seriously affected by the scanty expansion of economic activity, and in fact gross fixed investment barely rose above the previous year's level (its increase is estimated to be below 1%), as a result of the decline that private investment appears to have registered and the scanty growth of public investment, which was limited by financial problems.

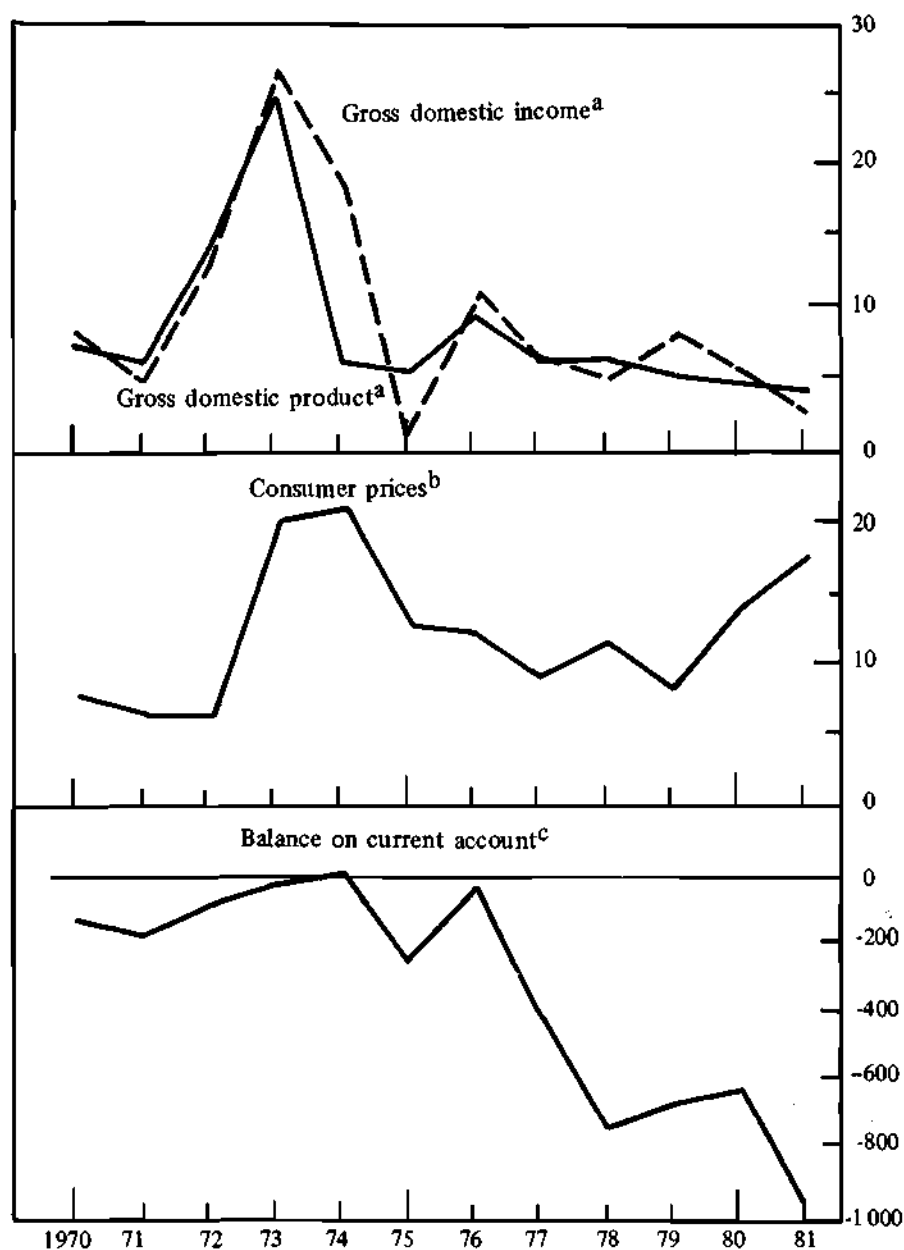
The drop in private investment was especially evident in construction, which was affected by the high costs of inputs and financing and the fact that sales of dwellings and commercial premises came virtually to a halt. As a result, the volume of imports of construction materials dropped to half and the planned building area in the three main cities fell by 17%. Investment in machinery and equipment also diminished, being affected by similar financial problems, the lack of liquidity and gloomy expectations concerning a foreseeable expansion in the main economic activities. This view was reflected in the fact that the volume of imports of capital goods for industry declined by 20% in 1981, that of capital goods for agriculture fell by 39% and that of transport equipment remained practically at the same level.

(b) *Growth of the main sectors*

In contrast with the evolution of the product by kind of economic activity observed over the past decade, the rate of growth of the production of goods registered in 1981 was similar to the rates recorded for basic services and other services, owing to the considerable loss of dynamism in the latter two categories of activities (see table 3).

Some minor progress in the growth of agriculture and manufacturing, together with the notable recovery of mining, in which the production of hydrocarbons has a considerable share, explains the satisfactory results obtained in the production of goods in 1981. In contrast, construc-

Figure 1
ECUADOR: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation from December to December.

^cMillions of dollars.

tion continued to show singular sluggishness for the third consecutive year, in sharp contrast with its notable expansion over the period 1973-1976.

Basic services (especially transport, storage and communications), and commercial activity and government services among "other services", turned in greatly reduced growth rates. In contrast, provisional information for 1981 indicates a significant rise in financial activities and insurance, which is not easy to account for since it is not in keeping with the trends in commercial activities, construction and other production activities, nor with the poor situation presented by the external variables.

(i) *Agriculture.* Agriculture had a relatively good year in 1981. Except in a few part of the country where there was a drought, the rainfall was that of a normal year and benefited the crops, especially cereals. Despite these favourable conditions, however, it is estimated that the crop farming product increased by only a little over 2%, and although this was more than in previous years, it was still very low. Added to these crop farming results were the increases of around 5% in livestock and fisheries production and the rise of about 10% in forestry. They all contributed to the 4% growth of the sector's total product: the highest rate recorded since 1974 (see table 4).

In crop farming some long-standing problems persisted, including the high cost of inputs and the fixing of very low producer prices. Added to these in 1981 were the difficulties in placing some products abroad, in addition to the low prices obtained on external markets. Similar circumstances arose within the country for several important items of domestic consumption, owing to excess supply which coincided with a contraction of demand, either because of the lower purchasing power or the lack of storage capacity of the National Storage and Marketing Enterprise (ENAC), or

Table 3

**ECUADOR: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY**

	Millions of dollars at 1970 prices				Percentage breakdown		Growth rates			
	1978	1979	1980	1981 ^a	1971	1981 ^a	1978	1979	1980	1981 ^a
Gross domestic product ^b	4 838	5 084	5 329	5 558	100.0	100.0	6.6	5.1	4.8	4.3
Goods	2 090	2 201	2 273	2 391	48.9	46.7	5.0	5.3	3.3	5.2
Agriculture	709	729	756	786	25.0	15.3	-3.1	2.8	3.7	4.0
Mining	249	268	244	257	0.2	5.0	11.7	7.5	-9.0	5.5
Manufacturing	963	1 037	1 103	1 176	18.5	23.0	10.2	7.6	6.4	6.6
Construction	169	167	170	172	5.2	3.4	5.0	-1.1	1.7	1.1
Basic services	431	464	510	536	8.5	10.5	6.9	7.8	9.8	5.2
Electricity gas and water	40	44	52	59	0.9	1.2	-	11.4	18.0	13.9
Transport, storage and communications	391	420	458	477	7.6	9.3	7.7	7.4	9.0	4.2
Other services	1 962	2 085	2 232	2 344	44.6	45.8	7.5	6.3	7.1	5.0
Commerce, restaurants and hotels	645	676	724	743	14.6	14.5	6.4	4.8	7.1	2.6
Financial institutions, insurance, real estate and business services	342	363	372	401	8.3	7.8	8.2	6.1	2.5	7.8
Ownership of dwellings	(214)	(222)	(230)	(239)	(6.1)	(4.7)	(3.9)	(3.6)	(3.8)	(3.6)
Community, social and personal services	975	1 046	1 136	1 200	21.6	23.5	8.1	6.5	8.7	5.3
Government services	(427)	(447)	(494)	(514)	(8.9)	(10.1)	(7.8)	(4.7)	(10.6)	(4.0)
Less: Imputed bank services	114	134	138	152	2.0	3.0	14.0	17.8	3.3	10.3

Source: ECLA, on the basis of figures supplied by the Central Bank of Ecuador.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, at factor cost the sum of the former does not correspond exactly with the latter.

else because of the insufficient installed capacity of enterprises processing agricultural products. For this reason ENAC was authorized as an exceptional measure to export 200 000 quintals of rice and 400 000 quintals of maize from its stocks.

Production of cereals increased by over 13% in 1981. Rice output reached record levels and the harvests of hard maize and wheat were also quite high. The wheat crop, which had fallen to very low levels in the past few years, increased by 31% in 1981, but nevertheless this grain continued to be imported in large quantities to supply the domestic market.¹ Among the agricultural export commodities, an outstanding feature was the bumper coffee harvest, which was 32% higher than in 1980, despite the severe fall in the world price. The average price of Ecuador's coffee exports, which had already dropped 25% in 1980, fell a further 22% in 1981. Added to this was the reduction to 61 000 tons of the export quota assigned to Ecuador by the International Coffee Organization and the rise in domestic production costs.

Table 4
ECUADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	Area harvested in 1980 (thousands of hectares)	1978	1979	1980	1981 ^a	Growth rates		
						1979	1980	1981 ^a
Millions of sucres at 1970 prices								
Agricultural product		28 500	29 251	30 333	31 532	2.6	3.7	4.0
Crop farming		16 106	16 242	16 583	17 000	0.8	2.1	2.0
Stock-raising		9 193	9 620	10 105	10 605	4.6	5.0	4.0
Forestry		1 918	2 018	2 140	2 345	5.2	6.0	9.0
Fishing and hunting		1 283	1 371	1 505	1 582	6.8	9.7	5.0
Thousands of tons								
Main agricultural products								
Bananas	71	2 152	2 032	2 270	1 930	-5.6	11.7	-15.0
Coffee	288	75	90	69	92	19.0	-22.6	32.0
Cocoa	270	72	77	91	85	7.4	17.8	-6.8
Sugar cane	51	3 924	3 825	3 862	3 596	-2.5	0.9	-6.9
Raw cotton	19	27	25	40	44	-5.3	57.9	10.1
Soya beans	25	25	34	34	35	31.9	.	3.6
African palm	18	125	165	245	349	32.0	48.7	42.5
Groundnuts	12	9	17	14	14	88.9	-20.5	3.7
Hulled rice	127	142	201	240	262	41.5	19.3	9.1
Wheat	32	29	31	31	41	8.0	-0.3	30.5
Maize	226	176	218	242	280	23.9	10.9	15.6
Barley	26	22	21	24	27	-5.0	17.9	12.3
Beans	48	19	23	26	25	23.4	13.4	-6.8
Other pulses	23	9	11	13	12	29.4	15.5	-3.1
Potatoes	30	343	263	323	321	-25.8	27.0	-0.7
Yuca	25	168	183	229	237	8.9	25.3	3.3
Fruit	117	1 612	1 481	1 548	1 556	-8.1	4.5	0.5
Vegetables	11	105	95	104	106	-9.5	9.2	1.8

Source: ECLA, on the basis of figures supplied by the Central Bank of Ecuador, the Planning Office and the Ministry of Agriculture.

^aPreliminary figures.

¹According to import licences, 247 000 tons were imported in 1981, i.e., 25% more than in 1980 and six times more than the total domestic output. In addition, 36 000 tons of barley and 10 000 tons of rice (45% of the 1980 volume) were imported.

Cocoa and bananas registered decreases in production during the year. In addition to the low external prices, which went down by 21% in 1980 and 27% in 1981, cocoa was affected by the smaller demand from processing enterprises in the country. Banana production, for its part, suffered the effects of lower external demand, rises in the prices of inputs and difficulties in the aerial fumigation of plantations. The harvest of sugar cane also declined, owing to high production costs and (in the opinion of entrepreneurs) unremunerative controlled prices, which were only adjusted in October but then provoked public protest demonstrations.

In contrast, 1981 saw a notable increase in the production of cotton, which gave rise to sales problems owing to the insufficient processing capacity of the cotton gins and the suspension of purchases by ENAC for lack of funds.

Among the agricultural commodities destined mainly for the domestic market, mention may be made of the excellent results of African palm oil production, which increased by 43% to nearly three times the level of 1978. Production of potatoes and yuca, together with fruit and vegetables, registered slight increases in 1981, but the production of pulses fell by 5.6%.

During the year, the Government repeatedly had to revise official prices because of the maladjustments occasioned by rises in production costs or the overproduction of some crops, such as cotton. The Government also intervened in the difficult situation faced by coffee and cocoa producers, reducing the tax payable on these commodities and adopting other measures to benefit these activities.

With the aim of expanding the system of marketing agricultural commodities, the Banco Nacional de Fomento began to participate in the marketing of poultry in Quito and Guayaquil. Later on it proposes to extend its action to commodities such as rice, maize and soya beans, through the establishment of mixed marketing enterprises.

While cattle stocks continued to increase (by a little over 2%) in 1981, supported by imports of fine breeding stock, the production of beef rose by about 3% and output of milk by 2%.² As regards the production of other kinds of meat, pork and poultry meat output registered increases of 6% and 9%, respectively, and that of mutton went up by somewhat less than 2%.

Fishing activities, for their part, continued to develop at a relatively high rate (about 5%), notwithstanding the problems deriving from the rise in the price of fuels, which even caused the temporary stoppage of fisheries operations and of industries processing these products. The price of diesel oil, which had risen from 3.42 to 11 sucres per gallon, was soon reduced to 7 sucres per gallon, exclusively for the fisheries sector, with the idea of gradually adjusting it in the ensuing months until it returned to 11 sucres.

The volume of exports of fisheries products is a good indicator of the level of this activity. During the year about 152 000 tons of these products were exported, or 3.7% more than in 1980. The last two years have witnessed rapid growth of the culture of shrimps to which the Government has given intensive support by granting coastal plots and credit facilities. The Central Bank and the Ministry of Natural Resources established a credit line equivalent to about US\$ 40 million for shrimp culture in an area of 16 000 hectares. Thus, the volume of shrimp exports rose from 5 500 tons in 1979 to 11 200 tons in 1981, their value being US\$ 77 million in the latter year.

Significant advances were made in 1981 in agricultural, forestry and fisheries development programmes as part of the 1980-1984 Development Plan, although budget cuts prevented the goals established for the year from being fully attained. In the evaluation of the 1981 Operational Plan, only the progress made in the integrated rural development programme, with six projects under way, was considered to be satisfactory; the rest of the programmes in the sector were regarded as below that level.

The implementation of the agrarian reform programme was considered "relatively acceptable". In 1981 approximately 56 000 hectares were taken over to benefit 6 500 families, and nearly 42 000 hectares were assigned to another 3 900 families, but all these figures were lower than those for the previous year.

²According to import licences, imports of powdered milk dropped from 7 100 tons in 1980 to 3 200 tons in 1981.

The Marginal Rural Development Fund (FODERUMA), intended to provide assistance and social services to very low-income rural communities, carried out several programmes in 1981 which benefited 342 000 rural workers and cost 146 million sucres. Two-thirds of this sum was invested in the organization of special programmes for the development of production and social welfare, while the remaining third was used to provide credit, mainly for crop farming and stock-raising activities.

(ii) *The petroleum industry.* The excess supply in the face of depressed demand observed in the world petroleum market during the year did not have major consequences for Ecuador, since it affected neither the extraction of crude petroleum, which rose by about 3% to 76.8 million barrels, nor its export, which went up in volume by approximately 15%, while its value grew by 12% to US\$ 1 560 million (see table 5).

Nevertheless, at some moments during the year there were difficulties in marketing the product abroad, which led to the accumulation of large stocks inside and outside the country (in Bonaire in the Caribbean) at a significant cost. Similarly, between January and October there was a gradual deterioration in the average sales prices of crude, from US\$ 40.3 per barrel to US\$ 32. In the last two months, prices showed some recovery to US\$ 33.80, which gave an average sales price for the year of US\$ 34.20 per barrel, i.e., just under the US\$ 35 recorded in 1980.

The incorporation of new production fields such as Yuca Sur, Culebra, Yulebra, Auca Sur and Pasaltena, all situated in the Amazon region, helped to increase the volume of petroleum extracted from nearly 205 000 barrels per day in 1980 to 210 400 barrels in 1981, notwithstanding the decrease in the natural flow of oil in many wells.

In 1981, 59% of the production of crude was exported. The refineries processed 5% less petroleum than in 1980, mainly as a result of brief disruptions in the Esmeraldas refinery, which resulted in a drop in the production of fuel oil and diesel oil.

The rapid growth rate of domestic consumption of petroleum-derived fuels continued to decline during the year, and their sale in the country, which had risen by 13.5% and 10% in the two

Table 5
ECUADOR: INDICATORS OF THE PETROLEUM INDUSTRY

	Thousands of barrels				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981
Crude petroleum								
Production	73 655	78 163	74 770	76 797	10.0	6.1	-4.3	2.7
Exports	44 799	44 792	39 639	45 447	-11.2	-	-11.5	14.7
Processed in refineries	30 063	31 761	33 937	32 182	107.8	5.6	6.9	-5.2
Percentage of total production	40.8	40.6	45.4	41.9				
Production of principal derivatives	29 265	31 611	33 038	32 000	105.1	8.0	4.5	-3.1
Gasoline	7 293	8 145	8 411	8 599	-47.7	11.7	3.3	2.2
Fuel oil	13 018	13 879	14 213	13 939	162.8	6.6	2.4	-1.9
Diesel oil	4 518	5 143	5 606	5 326	118.9	13.8	9.0	-5.0
Turbo fuel	985	1 134	1 099	1 135	162.7	15.1	-3.1	3.3
Kerosene	2 716	2 498	2 266	2 232	42.9	-8.0	-9.3	-1.5
Liquefied gas	735	812	843	770	1 941.7	10.5	3.8	-8.7
Imports of derivatives	2 122	2 730	4 592	5 589	...	28.7	68.2	21.7
Exports of derivatives	7 914	7 421	7 957	5 848	402.1	-6.2	7.2	-26.5
Domestic sales of derivatives	22 555	25 261	27 734	29 864	...	12.0	9.8	7.7

Source: Central Bank of Ecuador.

^aProvisional figures.

Table 6

ECUADOR: INDEX OF MANUFACTURING PRODUCTION

(1970 = 100)

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
General index	199	217	238	252	264	9.3	9.5	6.0	4.8
Food, beverages and tobacco	171	181	193	200	197	5.9	6.9	3.7	-1.5
Textiles, clothing and footwear	194	210	226	237	251	8.3	7.5	4.9	5.9
Wood and wood products	257	291	335	328	336	13.6	15.1	-2.1	2.4
Paper and paper products	121	135	149	160	168	11.9	10.2	7.3	5.0
Chemicals, petroleum derivatives, coal, rubber and plastic products	223	250	291	329	356	12.3	16.2	13.0	8.2
Non-metallic minerals	472	514	526	...	391	9.0	2.3	...	22.2
Basic metal products	284	315	373	327	360	10.8	18.4	-12.2	10.1
Metal products, machinery and equipment	487	522	599	669	738	7.2	14.6	11.7	10.3
Other manufactured products	308	361	415	448	475	17.0	15.0	8.0	6.0

Source: Central Bank of Ecuador.

^aPreliminary figures.

preceding years, rose by 7.6% in 1981 (see figure 2). To some extent this was connected with the sharp rise in the prices of fuels recorded in February, after they had remained constant at extraordinarily low levels since before the big increases in world petroleum prices in 1973-1974. As a result of these rises, gasoline prices almost trebled and that of the most widely consumed grade of gasoline rose from 4.65 to 15 sucres per gallon.³

In 1981 various efforts were made to find new deposits of hydrocarbons which would help to raise production. Thus, with the aim of intensifying prospection activities and production, the Government sent to the National Chamber of Representatives an amendment to the 1972 Law on Hydrocarbons, which is expected to attract the participation of foreign enterprises in domestic petroleum activities. Furthermore, in 1981 the State petroleum enterprise (CEPE) undertook intensive seismic prospection in the Oriente region and offshore and drilled 29 wells in the Amazon region, —six more than in 1980.

Up to the end of 1983 CEPE plans to incorporate 8 new oilfields, which will increase production by 35 000 barrels a day and will add some 150 million barrels to the proven reserves.⁴

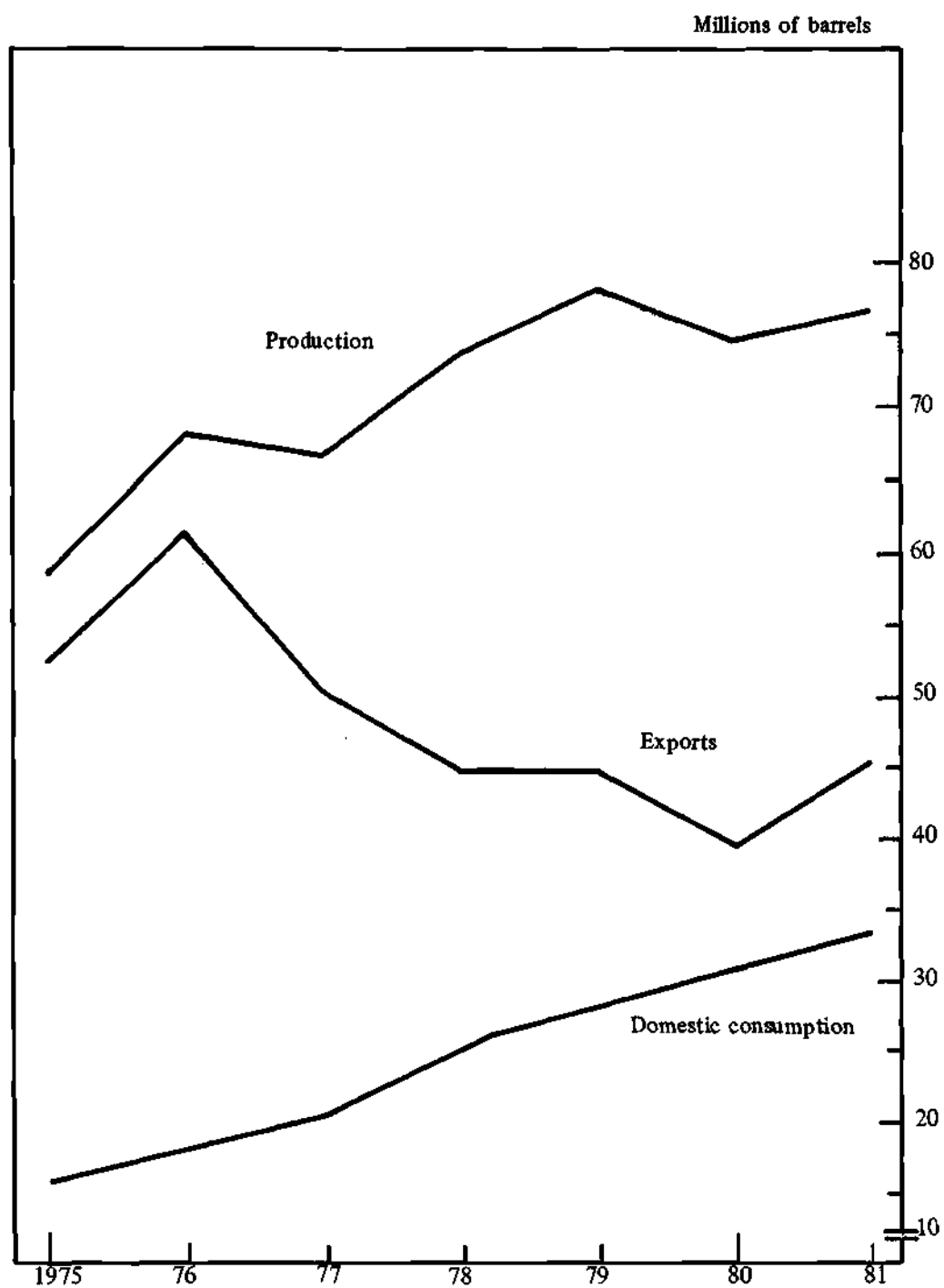
At the end of 1981 the Shushufindi liquefied gas plant started to operate and work was completed on the construction of the multi-purpose pipeline which will carry the gas to Quito. This plant will produce about 540 000 barrels a year, which is equivalent to approximately 40% of total consumption of liquefied gas, to around two-thirds of present output and to 80% of imports.

Towards the end of the year a drilling platform rented from a Mexican company arrived in the Gulf of Guayaquil. This will enable CEPE to develop the Campo Amistad and other structures rich in gas reserves located in that zone.

³The price of kerosene rose from 2.80 to 6 sucres per gallon; that of turbo fuel from 5.34 to 22 sucres and that of diesel oil from 3.55 to 11 sucres per gallon, except in the case of diesel fuel sold to fishing companies, which was raised temporarily to only 7 sucres per gallon.

⁴Although there is some difference of opinion as regards the magnitude of the recoverable proven oil reserves, a reasonable estimate places them at around 820 million barrels, which at the present rate of extraction would last a little more than 10 years.

Figure 2
ECUADOR: CRUDE PETROLEUM DATA



In addition to the 175 billion cubic feet of natural gas reserves existing in the Amazon area, there are 202 billion cubic feet in the Gulf of Guayaquil, upon whose exploitation depend a number of industrial projects to be established in the Guayas province, including a new refinery, a petrochemical complex, a polypropylene plant, a fertilizer plant and a steel works.

(iii) *Manufacturing.* For the second year in succession manufacturing activities continued to lose some of the momentum that had characterized their development. Thus, after growing at a rate of around 11% annually in the period 1974-1979, production increased by 6% in 1980 and by less than 5% in 1981³ (see table 6).

The highly diverse problems, both domestic and external, which affected the evolution of the economy during the year meant a shortage of financing for industry; rises in the costs of raw materials, manpower (partly as a result of the reduced working day) and fuels and electric energy; contraction of demand, especially for consumer durables and intermediate goods; and a decline of 16% in the volume of industrial exports. Thus, 1981 marked a drop in the volume of external sales of important products such as petroleum derivatives (-27%), processed cocoa products (-22%), sugar (-30%), and household electrical appliances (-19%).

The important food industry, which accounts for rather more than 40% of total production of manufactures, contracted by about 3%, although this was partially offset by the increments in beverages and tobacco, the other components of this branch of industry. Production volumes of textiles and clothing, wood and wood products, and chemical substances and products for their part, grew by an average of around 6%. In contrast, a significant increase was noted in the industries manufacturing basic metal products and especially non-metallic minerals, with the entry into operation of the new Cemento Nacional cement plant with a production capacity of 1 500 tons a day.

According to the surveys of the current situation carried out by the Planning Office it would appear that between 1980 and 1981 the utilization of industrial installed capacity as a whole fell from 74% to 69%; that of the consumer durables industry went down from 78% to 70%, and only that of capital goods increased, from 72% to 77%. Employment rose by 7% during the year in the 282 enterprises covered by the survey.

Furthermore, there was a significant decrease in investment in industry during the year as a result of the depressive symptoms observed in general economic activity and the high cost of external financing. As noted earlier, one indicator of this phenomenon was the 20% decrease in the volume of imports of capital goods for industry and the 5% fall in raw materials and intermediate goods for industry. However, credit granted by the national banking system to industry up to the end of August (27 417 million sucres) increased by 32% in nominal terms with respect to the same period in 1980.

Thirty-four new enterprises and 19 already in existence applied for benefits under the Industrial Development Law during the year, predominant among them being those manufacturing metal products and machinery, chemical products and food and beverages. Apart from the entry into operation of the Cemento Nacional cement plant and the entry into production of the expansions to Cemento Guapán and the mixed-capital enterprise Fertilizantes Ecuatorianos, there were considerable delays during the year in the progress of the main manufacturing projects.

(iv) *Construction.* In 1981 the growth rate of construction slowed even further, and over the last three years this sector has virtually stagnated. This situation was particularly marked in the case of private construction above all during the first half of the year. The public sector, in contrast, was able to maintain a certain amount of growth of its activities through the execution of some projects for which it was responsible, notwithstanding the financial difficulties it had to face.

Similar problems to those affecting the general economic situation were also the cause of the loss of momentum in construction. In the first place, sales of dwellings and commercial premises virtually ceased and, secondly, construction costs soared owing to the higher cost of labour,

³This decline in the growth rate of manufacturing production in 1981 is not consistent with that of the sector's gross product, which grew faster in 1981 than in the previous year.

financing, and especially construction materials, which were also in short supply. As a result of the conflict with Peru, imports of cement from that country were discontinued, causing a temporary shortage of cement and sharp unauthorized rises in its price.⁶ Towards the middle of the year the Government raised the official price of cement from 65 to 99 sucres per sack.

As a result of the sector's stagnation, the volume of imports of construction materials fell 25% during the year. The lesser dynamism of private construction was also clear from the 33% decrease in the area proposed to be built in Quito, and in the case of house construction the decline was as much as 40%. On the other hand, the area proposed to be built in Guayaquil rose by 21% and in Cuenca by 5%.

The construction of dwellings intended mainly for the low- and middle- sectors, in contrast, registered a notable increase during the year. The Banco Ecuatoriano de la Vivienda (BEV) and the National Housing Board (JNV), which in 1980 had constructed around 6 000 dwellings and "housing solutions",⁷ started work on approximately 14 000 units in 1981. At the same time, BEV obtained financing from the Banco Ecuatoriano de Desarrollo for the equivalent of some US\$ 24 million in order to continue the housing programmes in Guayaquil and US\$ 63 million from the World Bank and the International Development Association to initiate a plan for the construction of 4 500 dwellings in Quito. This was done without neglecting construction programmes in other parts of the country, in particular in some rural areas which are being given special attention.

For its part, the Ecuadorian Social Security Institute (IESS) also fulfilled to a high degree its house construction programmes, which comprised 10 900 units, or 34% more than in 1980. It also raised the amount of its mortgage loans to IESS members from 600 000 to 850 000 sucres.

Apart from the construction of dwellings and health and educational premises, the Government continued to make headway in road construction and, jointly with State enterprises, participated in the construction of dams and of infrastructure for the major projects considered in the 1980-1984 Development Plan.

During 1981 progress was made in the construction of approximately 270 kilometres of highways, without counting the construction of two stretches of the Ibarra-San Lorenzo highway, for which a sum equivalent to about US\$ 25 million was assigned. Special emphasis was also placed during the year on the construction of local roads, which are of great importance for agriculture and the marketing of agricultural products. At mid-year, 470 kilometres of such roads were under construction, and towards the end of the year the Ministry of Public Works came to an agreement with the provincial authorities of Guayas to build a further 590 kilometres.

(v) *Electric power.* In the course of the year only the 51 MW Santa Rosa thermal plant, designed to provide Quito with electricity, came into service, apart from several small plants, some of them hydroelectric. With these contributions the country's installed electric generating capacity increased by about 8%, to approximately 1 200 MW, of which about 80% is of thermal origin. The generation of electricity increased by a similar proportion, since although the new potential incorporated operated for only part of the year, the progress made in the interconnection of electricity systems enabled fuller use to be made of the installed capacity.

At the same time, work continued on the construction of the Paute hydroelectric plant, whose first two phases are expected to be completed in 1982 and which will add 500 MW to the country's electric power capacity. Progress also continued in the execution of the rural electrification programme by the State electricity enterprise.

⁶The shortage of cement was later solved through imports from other countries and the entry into operation of a new plant, Cemento Nacional, with a capacity of 1 500 tons per day.

⁷The so-called "housing solutions" are basic dwellings which are handed over to the recipients benefiting from this measure in various stages of construction for completion by them, for which purpose they are provided with materials and technical assistance.

3. The external sector

(a) *Merchandise trade*

Ecuador's favourable merchandise trade balance fell in 1981 from just under US\$ 330 to US\$ 210 million. On the one hand, exports increased by barely 1.5%, affected by low prices and restricted demand for several of the main export products. This was reflected in a small increase of 2% in the volume exported and a slight deterioration in the unit value of exports (see table 7).

Imports of goods, for their part, continued to increase and grew by 7%, which was more than in the previous year but much lower than the unusually high rates recorded in the three year period 1977-1979. To a large extent the increase in the value of imports was due to the higher prices, which rose 6.6%; in contrast, they do not seem to have shown any great change in volume.

As a result of the movement of the unit values of both trade currents, the terms of trade suffered a deterioration of 7%, which caused a decrease of 5.5% in the purchasing power of exports of goods. Nevertheless, in the last five years the terms-of-trade index has improved by 22% and the purchasing power of exports by 24%. By way of comparison, in the five previous years these increments came to 91% and 260%, respectively (see figure 3).

(i) *Exports.* The insignificant increase registered by exports of goods in 1981 represented an abrupt break in the marked upward trend (20% annually) shown since 1976. This phenomenon was influenced by highly diverse situations with respect to the main export products. Among the factors common to them all, however, mention should be made of the difficulties in placing products on the external markets; the low prices for several important export commodities; and the gradual decline in the effective real rate of exchange (7.6% in 1981), which has detracted from the competitiveness of Ecuadorian products on external markets and has reduced the domestic exporter's profit rates.

Notwithstanding the slackening of demand for crude petroleum at the world level, owing to the restrictions on consumption and the utilization of reserves, sales of Ecuadorian petroleum increased by approximately 15% in volume (to about 45 million barrels) and 12% in value; its average price dropped slightly from US\$ 35.20 to US\$ 34.20 per barrel in 1980. In addition, there were some important changes in the destination of these sales. Notable in this respect was the initiation of sales to Korea to a value of US\$ 500 million, and the appreciable increment in those destined for the United States, which rose from US\$ 276 to US\$ 450 million.

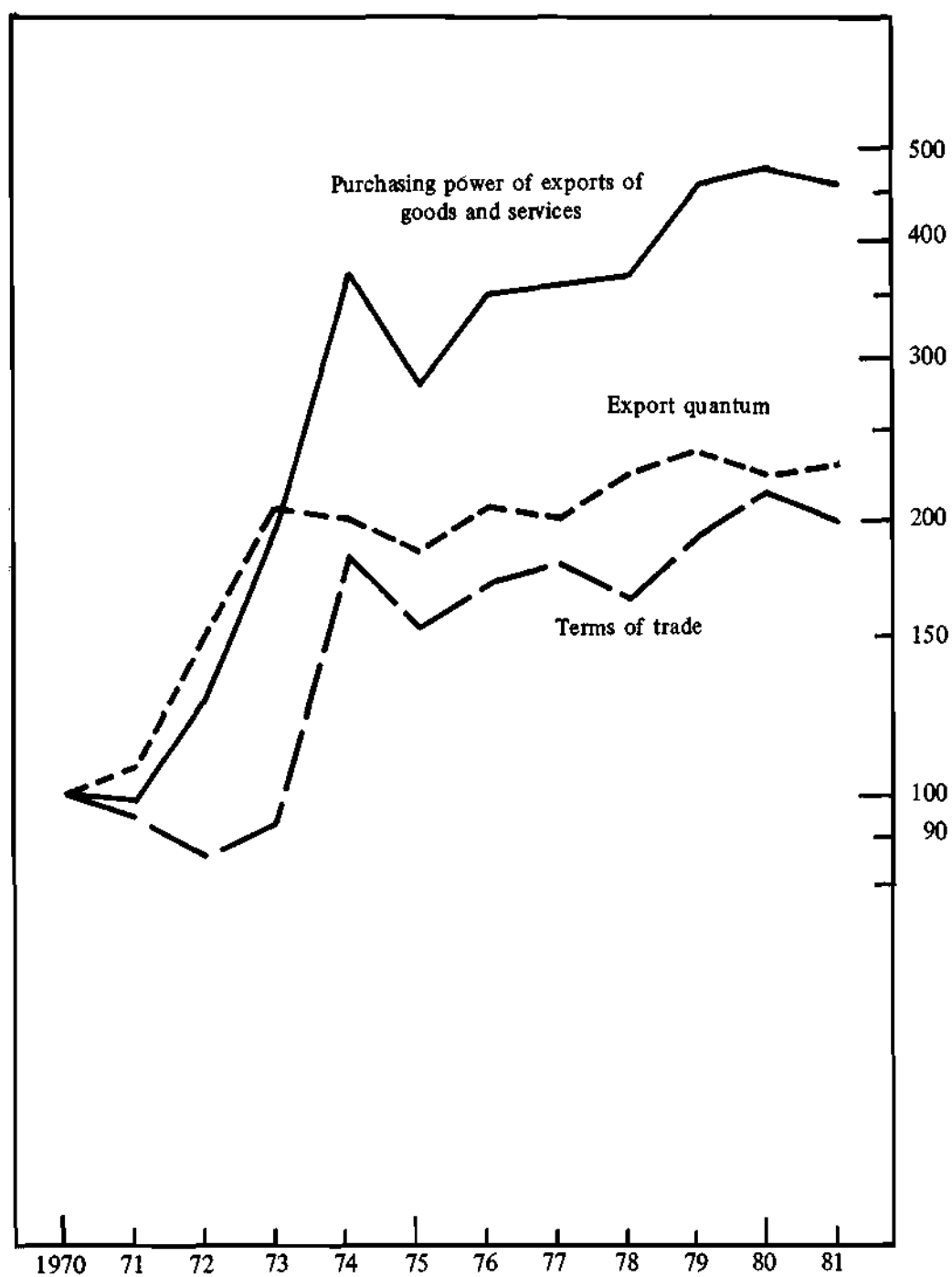
Table 7
ECUADOR: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods						
Value	29.1	7.2	9.2	42.0	16.5	1.5
Volume	12.6	-10.3	17.5	1.0	-7.2	2.1
Unit value	14.6	19.5	-7.1	40.6	25.6	-0.6
Imports of goods						
Value	4.1	29.8	25.2	23.1	5.1	7.0
Volume	2.9	18.0	18.9	5.9	-6.2	0.4
Unit value	1.2	10.1	5.3	16.2	12.0	6.6
Terms of trade	12.7	8.7	-11.5	22.1	12.1	-7.1
Indexes (1970 = 100)						
Terms of trade	179.2	194.8	172.4	210.5	236.1	219.3
Purchasing power of exports of goods	355.0	346.3	359.6	446.8	464.5	439.0
Purchasing power of exports of goods and services	350.0	357.6	363.8	454.4	473.8	454.4

Source: ECLA, on the basis of official figures.

^aPreliminary figures.

Figure 3
ECUADOR: EVOLUTION OF PURCHASING POWER OF
EXPORTS AND ITS COMPONENTS



In contrast, exports of petroleum products fell in both volume (-27%) and value (-14%).

Other important commodities whose sales decreased were bananas, coffee and processed cocoa products (see table 8).

Exports of bananas declined by 12%. Although the world price did not fall, internal problems raised costs and reduced production.

For their part, sales of coffee went down by 19% owing to a 22% drop in price following the previous year's fall of 25%. The volume exported of (56 000 tons) was slightly larger than that recorded in 1980, but it was still 40% below the average exported in 1978 and 1979, and it was not enough to fill even the reduced quota of 61 000 tons assigned to the country by the International Coffee Organization.

Exports of cocoa beans increased by close to 47% and fisheries products by 26%, despite the stoppages in the fishing and related processing industries in protest against the rise in the price of fuels. With respect to marine products, a significant increase was noted in exports of shrimps, which exceeded US\$ 77 million thanks to the rapid development of their culture on the coast in the last few years.

The volume of cocoa exports, which had fallen steadily from 69 000 tons in 1974 to 14 000 in 1980, doubled during the year, although the average sales price, which had been decreasing since 1978, dropped by 28%. On the other hand, sales of processed cocoa products, whose value was six times that of sales of cocoa beans in 1980, fell by 42% owing to similar declines in volume and price.

Exports of other processed products, which had nearly trebled in the previous two years, suffered a decline of 12% attributable entirely to the reduction of sugar sales to one-third in both volume and price.

Various measures adopted during the year were designed to make export products more competitive and improve the financing of these operations. Thus with the aim of promoting external sales, the rate of interest on advances on exports granted by the Central Bank was reduced from 6% to 4% annually. Secondly, the scales of *ad valorem* taxes on exports of coffee and cocoa were also reduced.⁸ Finally, with similar aims, a fund for the financing of exports was set up with IDB and domestic resources and will be administered by the Export Promotion Fund.

Table 8
ECUADOR: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981	1971	1981	1979	1980	1981
Total^a	1 494	2 173	2 506	2 541	100.0	100.0	45.4	15.3	1.4
Primary products	1 092	1 635	1 891	2 036	85.6	80.1	49.7	15.7	7.7
Petroleum	523	1 032	1 394	1 560	0.6	61.4	97.3	35.1	11.9
Coffee	281	263	130	106	18.1	4.2	-6.4	-50.6	-18.5
Bananas	172	200	237	208	44.3	8.2	16.3	18.5	-12.2
Cocoa	50	42	30	44	12.2	1.7	-16.0	-28.6	46.7
Marine products	42	63	66	83	4.8	3.3	50.0	4.8	25.8
Others	24	35	34	35	5.6	1.4	45.8	-2.9	2.9
Manufactured products	401	538	615	505	14.4	19.9	34.2	14.3	-17.9
Cocoa products	207	234	181	106	2.2	4.2	13.0	-22.6	-41.4
Petroleum products	91	145	193	167	0.4	6.6	59.3	33.1	-13.5
Processed marine products	47	60	90	99	1.8	3.9	27.7	50.0	10.0
Others	56	99	151	133	10.0	5.2	76.8	52.5	-11.9

Source: Central Bank of Ecuador.

^aThe data are based on export permits, so the totals do not match the ones in table 7.

⁸A proportion of 96% of the revenue from the tax on coffee exports is distributed as follows: 40% to a buffer fund to stabilize the price of this commodity, 20% to a coffee development and productivity fund, and the rest to a fund for credit to coffee growers. The proceeds of the tax on cocoa are distributed in a similar manner to benefit this activity.

(ii) *Imports of goods.* The difficulties with respect to export markets and prices and the decrease in international reserves led to the adoption of various measures aimed at containing imports. Preliminary balance-of-payments information indicates a 7% increase in imports of goods, which is slightly higher than in the previous year but considerably lower than their annual growth rate (26%) in the period 1977-1979. As noted earlier, the increase in imports in 1981 was entirely due to rises in prices, since the increase in volume was negligible (see table 7).

According to Central Bank⁹ import registers, the most drastic decreases in 1981 were in consumer goods (which had increased most in 1980) and construction materials, which had also risen sharply in the previous year. In contrast, considerable increments took place in the value of imports of transport equipment and, to a lesser degree, of capital goods and materials for agriculture, while imports of fuels, which are of little relative importance, also continued to rise (see table 9).

Imports of capital goods for industry, which up to 1979 had increased fairly rapidly, remained practically unchanged in 1980, while in 1981 they decreased. In contrast, purchases of raw materials and intermediate goods for industry dropped to one-third of their previous growth rate in 1980 and then barely increased in 1981.

The performance of the various types of imports during the year reflected, on the one hand, the loss of dynamism in industrial and construction activities in the last few years and, on the other hand, the effects of the measures adopted to contain imports, especially those which raised the prior import deposits.¹⁰ At the same time, import tariffs were raised for 506 items, mainly luxury goods, and towards the end of the year imports of motor vehicles were prohibited.

Table 9
ECUADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown		Growth rates		
	1979	1980	1981	1971	1981	1979	1980	1981
Total^a	1 986	2 250	2 246	100.0	100.0	27.5	13.3	-0.2
Consumer goods	181	250	202	11.5	9.0	18.8	38.1	-19.2
Non-durables	87	123	104	7.4	4.6	10.2	41.4	-15.4
Durables	94	127	98	4.1	4.4	29.8	35.1	-22.8
Raw materials and intermediate goods	831	943	923	46.8	41.1	26.7	13.5	-2.1
For agriculture	44	58	63	1.2	2.8	14.9	31.8	8.6
For industry	704	765	770	34.7	34.3	30.9	8.7	0.7
For construction	83	120	90	10.0	4.0	7.9	44.6	-25.0
Fuels	14	23	26	7.9	1.2	15.9	64.3	13.0
Capital goods	598	608	591	20.6	26.3	28.6	1.7	-2.8
For agriculture	31	38	44	2.1	2.0	1.1	22.6	15.8
For industry	567	570	547	18.5	24.3	31.2	0.5	-4.0
Transport equipment	357	408	494	13.2	22.0	40.4	14.3	21.1

Source: Central Bank of Ecuador.

^aCorresponds to imports permits granted. The total includes a relatively insignificant group of unclassified imports.

⁹The total amount of these import registers, not all the transactions in which were necessarily carried out, and the values of which are expressed in CIF values, differs from the figures in the balance of payments. Unlike the latter, the import registers do not show any substantial variation in imports in 1981.

¹⁰The following percentages were established 15% of the value of imports in list I, section B; 20% on compensation or barter imports in list II, and 50% for goods included in list II. In addition, the holding time for the deposits paid in respect of imports on list II was increased from 180 to 270 days.

(b) *The current account deficit and its financing*

The balance of payments current account deficit deteriorated sharply from some US\$ 615 million in 1980 to US\$ 940 million in 1981. This was due primarily to the increase in interest payments on the external debt, which amounted to US\$ 550 million net in 1981, and secondly to the increase in the trade deficit as a result of the scant rise in exports of goods and services compared with that noted in imports. Net remittances of profits rose by only US\$ 15 million. In the last five years the balance-of-payments current account position has rapidly worsened, passing from an average deficit of US\$ 215 million in the period 1975-1977 to one three times larger in the ensuing three years and then to US\$ 940 million in 1981 (see table 10).

Concurrently with the increase in the current account deficit there was a smaller net inflow of capital (US\$ 310 million) in 1981; so that the balance of payments closed with a deficit of a little over US\$ 360 million and the country's international reserves fell by US\$ 380 million. There had been no decrease in reserves since 1975, and in that year it was only US\$ 65 million. Total international reserves dropped from US\$ 1 030 million at the end of 1980 to US\$ 650 million at the end of 1981, a sum barely equivalent to two-and-a-half months of imports.

The smaller net inflow of capital registered in 1981 is explained by the fact that the gross inflow under the heading of long-term loans did not vary with respect to 1980, whereas amortization payments on such loans amounted to US\$ 84 million more than in the previous year. In addition, there was a net outflow of US\$ 91 million of short-term capital—compared with only US\$ 8 million in 1980—and an outflow of US\$ 153 million (US\$ 63 million in 1980) for unspecified items included under the heading of errors and omissions.

(c) *External indebtedness*

At the end of 1981 the long-term external debt was approximately US\$ 4 820, while the total external debt amounted to US\$ 5 540 million. Four-fifths of the total indebtedness was public and the remainder private, and in the case of the long-term debt, the share of the public sector was a little over 87% (see table 11).

In 1981 the external debt with a term of over one year grew by 19% which is a little less than the rates registered in the last two years and bears no relation to what happened between 1976 and 1978 when the balance of the external debt rose from US\$ 700 to US\$ 1 260 million.

The border conflict with Peru caused the economic authorities to revise and reduce the programme of investments and projects established for 1981, postponing or suspending the execution of those on a lower scale of priority. This made it possible to channel financing towards objectives of more immediate necessity and was reflected in the contraction of public sector borrowing from a total of close to US\$ 1 400 million in 1980 to a little over US\$ 900 million in 1981. This was accompanied by considerable changes in the sources of credit. Thus, credit from international private banks and suppliers was halved and that granted by international institutions fell by 30%. Only loans contracted with foreign governments increased, among them the resources provided by the Agency for International Development (AID) for the Integrated Rural Development Project and the project connected with the development of alternative energy sources.

Of the total loans contracted by the public sector in 1981, 22% were obtained from international institutions, 18% from governments, 58% from foreign banks and 2% from suppliers. The change in the origin of loans also led to improvements in their terms, especially as regards the extension of their maturity. Thus, the proportion of loans with a term of over 10 years increased from 18% in 1980 to 22% in 1981.

In spite of the substantial drop in the contracting of credit for the public sector, disbursements totalled US\$ 1.4 billion in 1981, i.e., 9% more than in the previous year. Credit procured by the public sector—which represented 87% of the total—rose by 25%, while that obtained by the private sector fell drastically for the second year running (see table 11). This was partly due to the fact that the high interest rates in the international financial markets, contrasting with the low real rates in the country and the weakening of domestic economic activity, helped to discourage private

Table 10

ECUADOR: BALANCE OF PAYMENTS

(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	1 419	1 592	1 703	2 432	2 840	2 926
Goods FOB	1 307	1 401	1 529	2 171	2 530	2 568
Services ^b	112	192	174	260	311	358
Transport and insurance	45	93	49	109	140	143
Travel	31	48	65	80	91	131
Imports of goods and services	1 340	1 801	2 190	2 683	2 970	3 161
Goods FOB	1 048	1 361	1 704	2 097	2 203	2 359
Services ^b	292	440	486	586	766	802
Transport and insurance	172	257	283	295	428	445
Travel	50	82	97	129	149	160
Trade balance	79	-208	-487	-252	-130	-235
Profits and interest	-116	-170	-255	-395	-486	-704
Profits	-91	-119	-116	-130	-139	-154
Interest	-25	-51	-139	-265	-347	-550
Unrequited private transfer payments	8	-	12	-	-	-
Balance on current account	-29	-377	-730	-647	-616	-939
Unrequited official transfer payments	23	36	29	29	40	-
Long-term capital	157	591	782	692	917	821
Direct investment	-20	34	49	66	80	50
Portfolio investment	6	52	-	-	-	-
Other long-term capital	171	504	733	626	836	771
Official sector ^c	164	440	352	370	610	829
Loans received	201	487	498	960	799	1 164
Amortization payments	-34	-42	-139	-584	-180	-336
Commercial banks ^c	-	-	63	-19	3	2
Loans received	-	-	64	2	8	3
Amortization payments	-	-	-1	-21	-3	-1
Other sectors ^c	7	64	319	275	223	-59
Loans received	59	123	469	585	608	254
Amortization payments	-51	-58	-88	-371	-384	-314
Short-term capital	66	-88	-120	-39	-8	-91
Official sector	89	-101	3	-107	-61	-14
Commercial banks	-15	-26	3	-10	-	-32
Other sectors	-9	39	-126	78	33	-45
Errors and omissions	-13	-50	44	8	-63	-153
Net capital movements	233	489	736	691	886	577
Global balance ^d	203	112	5	44	270	-362
Total variation in reserves (minus sign indicates and increase)	-224	-146	-13	-87	-291	381
Monetary gold	-	-1	-	-	-	-
Special Drawing Rights	-	-3	-4	-11	1	-9
IMF reserve position	15	-	-10	-2	-15	-1
Foreign exchange assets	-240	-143	2	-73	-277	391
Other assets	-	-	-	-	-	-
Use made of IMF credit	-	-	-	-	-	-

Source: 1976-1980: International Monetary Fund, *Balance of Payments Yearbook*; 1981: ECLA, on the basis of data supplied by the Central Bank of Ecuador.

^aPreliminary figures.

^bServices also include other official and private transactions, but not profits and interest.

^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

external indebtedness in the last two years and tended rather to stimulate the outflow of private capital from the country.

Servicing of the external debt, for its part, rose by 32%, i.e., much more rapidly than disbursements. The rise was especially marked in the case of interest payments, which went up from US\$ 410 million in 1980 to over US\$ 670 million in 1981, so that for the first time they exceeded the amount paid under the heading of amortization (US\$ 650 million). Servicing of the total external debt, (which also includes short-term loans) amounted to a much higher figure (US\$ 2 110 million in 1981), of which US\$ 800 million represented interest and US\$ 1 310 million amortization payments. This sum was 50% higher than the amount paid in the previous year and was equal to 72% of the value of exports of goods and services.

(d) Evolution of the real exchange rate

In 1981 approximately 70% of total foreign exchange transactions were effected at the official exchange rate of 25 sucres to the dollar. This rate, applicable to trade transactions and operating under the control of the Central Bank, has remained unchanged since 1970. The rest of the exchange operations are effected at a fluctuating exchange rate on the free market, in which private banks, foreign exchange offices and the Central Bank participate; the Central Bank began to intervene in this market from the middle of 1981 onwards with a view to regulating the price of the dollar. Nevertheless, the free exchange rate, which in the previous 5 years had increased by barely 10%, rose by nearly 19% between the beginning and end of 1981 from 28.4 to 33.7 sucres to the dollar, and in November reached a peak of 35 sucres.¹¹ This increase was the result of a series of

Table 11
ECUADOR: EXTERNAL DEBT

	Millions of dollars			Growth rates	
	1979	1980	1981	1980	1981
Long-term debt					
Balance at end of year	3 343	4 045	4 816	21.0	19.1
Public	2 698	3 411	4 213	26.4	23.5
Private	645	634	603	-1.7	-4.9
Disbursements	1 589	1 300	1 421	-18.2	9.3
Public sector	1 123	984	1 232	-12.4	25.2
Private sector	466	315	189	-32.4	-40.0
Amortization payments	925	593	650	-35.9	9.6
Public sector	733	267	430	-63.6	61.0
Private sector	192	326	220	69.8	-32.5
Interest	270	407	674	50.7	65.6
Public sector	211	288	563	36.5	95.5
Private sector	59	119	111	101.7	-6.7
Total external debt					
Balance at end of year	3 554	4 601	5 536	29.5	20.3
Public	2 848	3 530	4 373	23.9	23.9
Private	706	1 071	1 163	51.7	8.6
Service	...	1 409	2 114	...	50.0
Service as a percentage of exports of goods and services	...	49.6	72.2		

Source: Central Bank of Ecuador.

¹¹Meanwhile, consumer prices in Quito increased 74% between 1975 and 1980 and 16.4% in 1981.

circumstances which gave rise to a bigger demand for dollars, such as the outflow of capital in search of higher rates of interest, the fall in the international reserves and the growing expectations of devaluation.

In contrast with the small real increase in the free market exchange rate, the effective exchange rate on the official market fell by about 10% in 1981 (see table 12 and figure 4). This fall was influenced, on the one hand, by the fact that Ecuadorian inflation in 1981 exceeded that of its principal trade partners, especially the United States with which Ecuador carries on practically 40% of its foreign trade and, on the other hand, by the revaluation of the dollar with respect to the yen and the principal European currencies.¹² In view of this new fall in the effective real exchange rate and the almost continuous downward trend which it followed during the 1970s, its level in 1981 was about 30% lower than at the beginning of the previous decade. In these circumstances, as noted earlier, imports tended to become less expensive than the corresponding domestic products, while exportable products became relatively more expensive, thereby reducing the competitiveness of Ecuadorian products.¹³

4. Prices and wages

(a) Domestic price trends

The rate of inflation increased once again in 1981. Thus, the consumer price index in Quito, measured from December to December, registered a rise of close to 18% in 1981: the highest recorded since 1974, when the index surprisingly rose by about 22%. Since then (1975-1980) the annual increment in domestic prices has been around 12%, increasing in 1980, to 14.5%. The variation in the 1981 index between annual averages was a little over 16% (see table 13).

Table 12

ECUADOR: EVOLUTION OF INDEXES OF EFFECTIVE REAL EXCHANGE RATE FOR EXPORTS AND IMPORTS^a

Annual averages	Exports	Imports
1970	134.59	121.80
1971	137.26	119.00
1972	132.28	118.63
1973	131.06	122.94
1974	120.74	117.09
1975	111.48	108.98
1976	105.15	102.41
1977	99.02	98.03
1978	96.22	98.87
1979	99.23	100.17
1980	100.00	100.00
1981	92.35	89.56

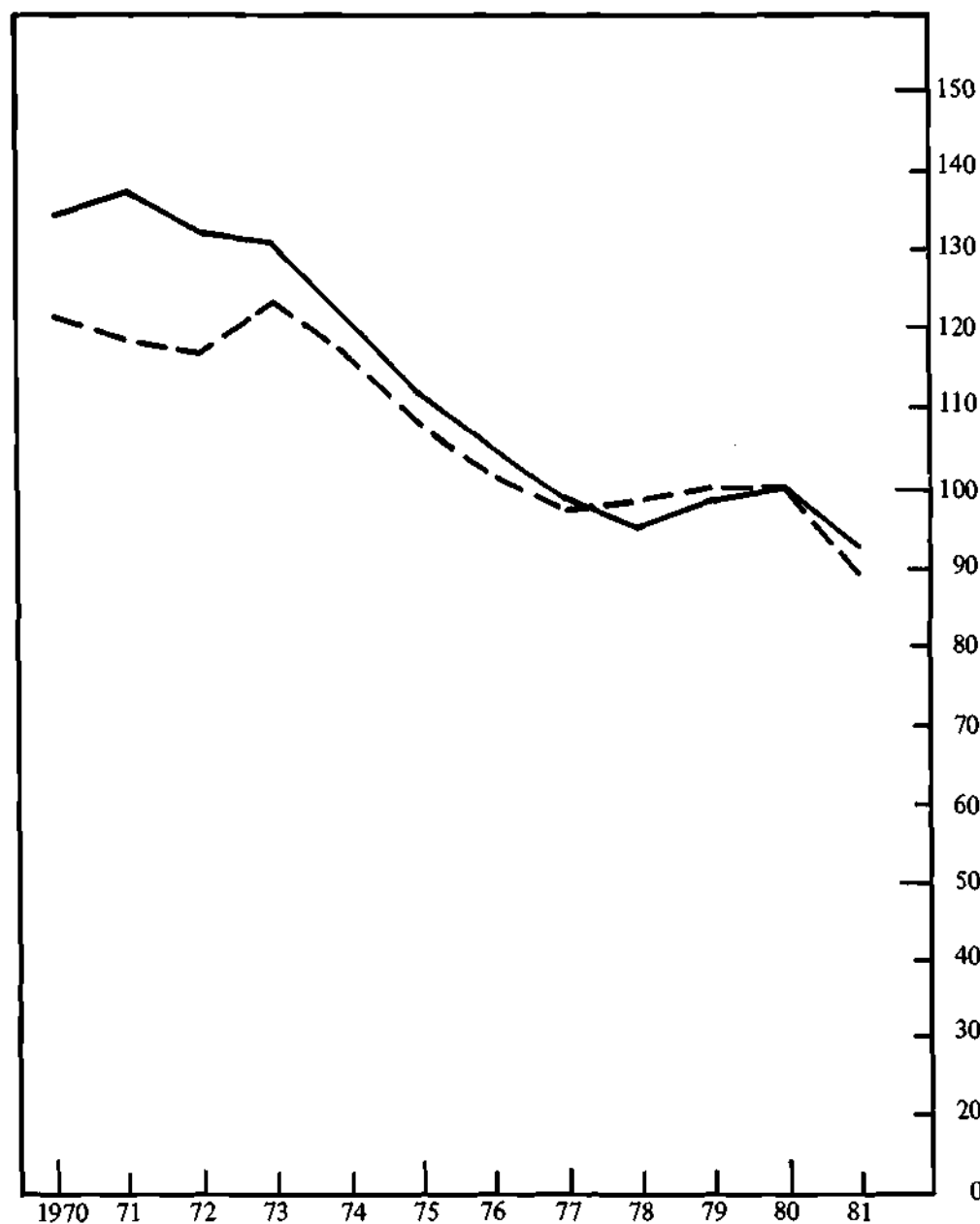
Source: ECLA, on the basis of data from IMF, *Supplement of Exchange Rates and International Financial Statistical*.

^aThese indexes correspond to the indexes of the real exchange rate of the sucre with respect to currencies of countries with which trade is carried on, weighted by the relative importance of exports or imports, as the case may be, to or from those countries.

¹²For the methodology and sources used in calculating the effective real rate of exchange, see the technical appendix at the end of Part Two of this *Survey*.

¹³These trends do not however, take account of the effects of tariffs, quotas, prior deposits and other measures applied to imports on the price of imported products, nor the effects of subsidies, tax refunds, tax exemptions and other benefits granted to exporters and producers of exportable goods on the competitiveness of Ecuadorian products.

Figure 4

**ECUADOR: EVOLUTION OF INDEXES OF EFFECTIVE REAL
EXCHANGE RATE FOR EXPORTS AND IMPORTS***(1980 = 100)*

Source: ECLA, on the basis of data obtained from IMF, *Supplement of Exchange Rates and International Financial Statistics*.

—: Index of effective real exchange rate for exports.

- - - : Index of effective real exchange rate for imports.

Price increases in Quito came in an intermediate position between the annual average variation of 13% in Guayaquil and 18% in Cuenca.

The temporary expansion of public expenditure due to the hostilities with Peru at the beginning of the year and the appreciable adjustment of the prices of petroleum-derived fuels were two developments occurring in the early months of the year which it was feared would have severe inflationary effects. The rise in fuel prices rapidly affected the costs of transport, production of thermal electricity and, in general of manufacturing and agriculture. As a result, the various sectors affected insistently requested during the year —with varying results— a revision of their tariffs and prices, while the workers pressed for the adjustment of their wages.

To the aforementioned factors were added others such as the implementation of a more realistic price policy for a number of basic consumer products (reflected in the fixing of higher prices with the aim of promoting their production); marketing problems which gave rise to temporary supply shortages; and the effects of imported inflation.

The inflationary effects of these factors were, in part, counteracted by the lack of liquidity and the restriction of demand, and also by the excellent harvests of some important basic agricultural consumer products which, in view of the lack of purchasing power of the State marketing enterprise ENAC, were in some cases sold at less than the official prices.

In the first half of the year the consumer price index rose at a fairly even rate equivalent to 25% annually; it remained static in the next two months and then continued rising at a rate of 19% annually as from September. The food component of the index followed a similar trend, although it was clearly accentuated (30% annually) in the last four months of 1981.¹⁴

(b) *Wage policy*

In 1981 the system of adjustment of minimum wages was altered. The old system established a scale of minimum wages for workers in general, and for some broad categories of workers. Since the wage adjustments were not effected at regular intervals (among other reasons), they sometimes assumed considerable magnitudes which naturally helped to accelerate a rise in domestic prices. Thus, the last adjustment at the end of 1979 doubled the minimum wage of workers in general from 2 000 to 4 000 sucres a month.

The labour authorities consequently changed the system of general wage adjustments for another which reviews and fixes the levels of wages by sectors of activity. For this purpose, 81 wages commissions were established with the representation of workers, entrepreneurs and the Government; 71 of these commissions determined new wage scales due to come into force in 1982.

Table 13
ECUADOR: CONSUMER PRICE INDEX^a

	1976	1977	1978	1979	1980	1981
Variation from December to December						
Consumer price index	13.1	9.8	11.7	9.0	14.5	17.9
Food	14.3	9.0	10.6	7.0	12.3	19.2
Variation between annual averages						
Consumer price index	10.7	13.0	11.7	10.3	13.0	16.4
Food	9.5	15.6	10.2	10.0	11.0	14.2

Source: Central Bank of Ecuador.

^aCorresponds to the consumer price index for middle- and low-income families in Quito.

¹⁴Among the foodstuffs that increased most in price during the year were the following: yuca and potatoes (106% and 53%); refined and coarse sugar (54% and 30%); bread and bananas (25%); beef (23%); fish (28%) and rice (10%). On the other hand, prices of milk and eggs remained unchanged while those of noodles and poultry rose by 3% and 9%, respectively.

Table 14

ECUADOR: MONETARY BALANCE

	End-year balance (millions of sucres)					Growth rates			
	1977	1978	1979	1980	1981	1978	1979	1980	1981
Money	30 197	33 171	42 214	54 143	60 370	9.8	27.3	28.3	11.5
Currency outside banks	9 127	10 275	12 338	15 285	17 300	12.6	20.1	23.9	13.2
Demand deposits ^a	21 070	22 896	29 876	38 858	43 070	8.7	30.5	30.1	10.8
Factors of expansion	44 485	49 823	65 027	83 376	90 461 ^b	12	30.5	28.2	13.9 ^c
Foreign assets (net)	14 480	15 636	16 566	22 672	14 870	8.0	5.9	36.9	-34.4
Domestic credit	30 065	34 187	48 461	60 704	76 357 ^b	13.9	41.8	25.3	29.8 ^c
Government (net)	180	-2 096	1 595	1 212	120 ^b	-	-	-24.0	-75.5 ^c
Private sector	29 824	36 281	46 866	59 492	76 237 ^b	21.6	29.2	26.9	30.7 ^c
Factors of absorption	14 289	16 652	22 813	29 233	34 628 ^c	16.5	37.0	28.1	14.5 ^c
Quasi-money (savings and time deposits)	6 356	7 651	12 742	15 578	20 767 ^b	20.4	66.5	22.3	22.6 ^c
Bonds	6 388	7 009	7 836	10 565	12 670 ^b	9.7	11.8	34.8	17.0 ^c
Other items (net)	1 545	1 992	2 235	3 090	1 191 ^b	28.9	12.2	38.3	52.1 ^c

Source: International Monetary Fund, *International Financial Statistics*, April 1982.

^aBalance at end of November.

^bJanuary-November 1981, with respect to January-November 1980.

^cIncludes deposits in the Central Bank made by the private sector.

As a result of the rises in the prices of basic products and services during the year there were a great many strikes and stoppages for higher wages, which led to improvements for only some sectors of workers. Because of its financial difficulties the Government kept the wages of public employees frozen and took on no new personnel.

Unfortunately, no information is available on the evolution of wages in 1981. According to data from some sectors of production, however, it is estimated that, on average, the adjustments barely exceeded the increase in domestic prices.

5. Monetary and fiscal policy

(a) *Monetary trends*

In 1981 there was a limited expansion of the means of payment of around 12% if the balances at the end of December of each year are compared. Both currency outside banks and demand deposits, the two components of the means of payment, increased by similar proportions (13% and 11% respectively). These increases were insufficient for the smooth operation of economic activity, which suffered from lack of liquidity during the major part of the year. In this respect, it should be recalled that production of goods and services increased by 18% in terms of current prices and that domestic prices rose by 18% from December to December (see table 14).

In absolute terms, the issue of money in 1981 was around half that of the previous year. The primary issue was 30% below that of 1980, while the secondary issue, originating in the decrease in the public's deposits in banks, was 57% less.

Several factors helped to keep down monetary expansion. The first was the drop in the international monetary reserves to two-thirds of their level of the end of 1980. The contractive effect of this decline on money issues was also strengthened by the decrease in net credit from the Central Bank to the public sector and by the increase in the amount of prior import deposits. Another contributory factor was the sales of stabilization bonds and bank acceptances by the Central Bank in the securities market, and the Central Bank's intervention in the free exchange market, which reduced the liquidity of the financial system by an amount estimated at around 5

billion sucres. Nevertheless, the contractive effects of these factors were more than offset by the credit assigned to the private sector, which up to November had risen by approximately 30%, or slightly more than the previous year.

As a consequence of the conflict with Peru, the withdrawal of deposits and the expansion of credit to the private sector, there was an increase in money in circulation in the early months of the year which the monetary authorities hastened to correct by the adoption of various measures including the establishment of a compulsory marginal bank reserve; a maximum increase of 2.5% in the balances of active operations for 45 days (except for credits to production and to finance exports), and the establishment of higher percentages for prior import deposits, especially on luxury goods.

As from March, the means of payment showed successive increases and decreases and various monetary policy instruments were used to regulate them, although not always with that sole purpose. This was so, for example, in the case of the changes that were made in the percentage of the minimum legal reserves of private banks for their demand deposits, which rose from 25.5% at the beginning of April to 28% towards the end of May but thenceforth gradually declined to 22% in December.

In addition, medium- and long-term interest rates were raised with the purpose of encouraging domestic saving. Thus, the rate for savings certificates and time deposits was raised from 8% to 13% annually; the rate of long-term bank loans went up from 12% to 15%, while short-term credit to industry and agriculture remained at an interest rate of 12%. Nevertheless, the real interest rates continued to be negative. External loans were authorized at a rate of over 12%, provided the interest rate at which they were obtained did not exceed the LIBOR or Prime rates plus two points and that it was higher than 12%.

Another factor which helped to increase the volume of credit, improve the liquidity situation and promote exports was a provision which reduced from 6% to 4% annually the interest rate on Central Bank operations with individuals in respect of advances on exports.¹⁵ Furthermore, the interest rates on operations and rediscounts of the Export Promotion Fund in the Central Bank were reduced.

(b) Fiscal and public sector income and expenditure

Notwithstanding the efforts made to contain public expenditure and reduce the fiscal deficit, the latter (which had already increased the year before by about 70%) rose by a little over 140% in 1981. It thus totalled 20.8 billion sucres and represented 35% of total expenditure; a proportion almost double those registered in the previous two years (see table 15).

This serious financial situation was due to the negligible increment in income—which increased only by a little over 1%—and the much greater expansion of expenditure, which rose by 28%.

The dynamism developed by expenditure the previous year, when it increased by 64%, combined with the extraordinary expenditure caused by the conflict with Peru and the meagre prospects of rises in tax revenue and petroleum income owing to the weakening of external trade and domestic activities, led the authorities to implement a policy of containing public expenditure, while at the same time introducing tax changes whose effects were not generally perceived during the year.

The curtailment of fiscal expenditure mainly affected capital spending which rose 21% despite the fact that debt amortization payments alone increased by 80%. Current expenditure rose 30%; in particular, the payment of interest on the debt increased 60% to the significant amount of close on 5 billion sucres. In addition, current transfers more than doubled in 1981 owing to the extraordinary transfers which had to be made to "special accounts", the Defence Board and the National Participation Fund (FONAPAR). On the other hand, expenditure on wages and salaries

¹⁵Up to the end of October these advances totalled 14.1 billion sucres, or approximately a quarter of the total credit granted by the Central Bank up to that date.

Table 15

ECUADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of sucres				Growth rates		
	1978	1979	1980	1981	1979	1980	1981 ^a
1. Total income ^b	13 057	23 080	37 567	38 100	21.1	62.8	1.4
Current income	19 660	23 722	38 512	39 040	20.7	62.3	1.4
Traditional	17 501	19 372	24 283	25 960	10.7	25.4	6.9
Tax revenue	16 748	18 445	22 445	24 600	10.1	21.7	9.6
Direct	2 954	3 419	4 179	5 913	15.7	22.2	41.5
Indirect	5 541	6 527	8 616	8 907	17.8	32.0	3.4
On foreign trade	8 253	8 499	9 650	9 780	3.0	13.5	1.3
Other income	753	927	1 838	1 360	23.1	98.3	-26.0
From petroleum	2 159	4 350	14 229	13 080	101.5	227.1	-8.1
2. Total expenditure	26 155	28 189	46 156	58 904	7.8	63.7	27.6
3. Deficit (1-2)	-7 098	-5 109	-8 589	-20 804	-28.0	68.1	142.2
4. Financing	6 394	3 890	7 241	22 502			
Indebtedness	6 541	4 260	7 115	23 000			
Foreign	1 179	-	3 319	8 872			
Domestic	5 362	4 260	3 796	14 128			
Cash balances ^c	-147	-370	132	-498			
Difference (3-4) ^d	704	1 219	1 342	-1 698			

Source: Central Bank of Ecuador and National Development Council.

^aPreliminary figures.

^bNet total income; taxes paid with tax savings certificates and agrarian reform bonds have been deducted.

^cUse or net accumulation of funds during the financial year, according to whether the balance is positive or negative.

^dBalance of payments deferred until the next year (positive sign) and of payments made to cover expenditure of the previous year (negative sign).

increased by 16% (similar to the increase in consumer prices in Quito), while purchases of goods and services rose by only 9%. Among the restrictive provisions, one of special importance was the prohibition of filling vacancies in the public administration.

As regards fiscal income, its scanty increase was mainly due to the 8% decline in income from the petroleum industry to an estimated 13.1 billion sucres, representing one-third of total income. On the other hand, traditional income went up by about 7% with tax revenue other than that originating in the petroleum industry growing by 10%. The increase in traditional tax revenue in 1981 derived from increments of 42% in direct taxes, only a little over 3% in indirect taxes, and 1% from taxes on foreign trade.

Notable among the tax measures adopted during the year were the changes introduced in taxes on income, commercial transactions and vehicles. Also important were the changes introduced in import tariffs, by virtue of which at the end of July taxes were raised on over 500 import items, mainly non-essential and luxury goods. In contrast, in October the tax scales were reduced for coffee and cocoa exports, which were particularly affected by the low world prices of these commodities.

The deficit on the public sector accounts, was 41.6 billion sucres, or 37% higher than the 1980 figure. Although this increase was considerable, however, it was far below the growth rate of the deficit in the budget accounts (140%).

Total public expenditure was 117.7 billion sucres, or 15% higher than in 1980. While current expenditure rose by about 20% (38% in 1980), capital expenditure went up by only a little over 9%, despite the fact that this includes amortization payments on the debt (17.3 billion sucres) which were 21% higher than those paid in 1980. The increment of barely 5.5% in real public investment, however, reflects the extent of the restrictions on public expenditure which caused the

postponement and delay of important projects. Financial investment, for its part, dropped by 11% (see table 16).

Approximately 77% of public expenditure was directly or indirectly related to development programmes and policies envisaged in the 1981 Operational Plan, in which a sum 25% higher than this had been envisaged but was not available, among other reasons, for lack of financial resources. About two-thirds of public expenditure was financed in 1981 from ordinary income.

This increased less than 6% during the year, whereas in 1980 it had risen 43%. Traditional income rose 8% and income from petroleum by 4.4%, contrasting with the fall in income from this source in the General Budget results. Of the 33.6 billion sucres of petroleum income, 5.2 billion were obtained from the rise in the domestic sales prices of hydrocarbons.

A proportion of 42% of the deficit of 41.6 billion sucres was financed by domestic credit and the issue of bonds and 55% by the disbursement of external credit in an amount slightly lower than that of the previous year.

Table 16

ECUADOR: PUBLIC SECTOR INCOME AND EXPENDITURE

	Millions of sucres			Growth rates	
	1979	1980	1981 ^a	1980	1981 ^a
Total income	50 555	72 036	76 112	42.5	5.7
Traditional	30 726	38 907	42 053	26.6	8.1
From petroleum	19 434	32 148	33 571	65.0	4.4
Other income	395	981	488	148.4	-50.3
Total expenditure	74 180	102 457	117 686	38.1	14.9
Current	38 913	54 734	65 474	37.5	19.6
Capital	34 367	47 723	52 212	38.9	9.4
Real investment	20 153	31 178	32 890	54.7	5.5
Amortization payments	12 439	14 218	17 261	14.3	21.4
Others	1 775	2 327	2 061	31.1	-11.4
Deficit	-23 625	-30 421	-41 574	28.8	36.7
Financing					
Domestic credit	14 752	8 596	17 627		
External credit	7 859	23 584	22 950		
Other	1 014	-1 759	997		

Source: National Development Council.

^aPreliminary figures.

EL SALVADOR

1. Recent economic trends: Introduction and summary¹

In 1981 El Salvador was still sunk in the protracted conflict which has aroused worldwide attention and has reinforced the climate of uncertainty and polarization of social forces in the country. This grave crisis has had profound and dramatic repercussions which could last for several generations and which are in some cases totally irreparable, such as the tens of thousands of human lives lost. Moreover, the material losses have been so great that their effects will be felt at least beyond the medium term. Although it would be premature to try to specify the financial cost of economic reactivation and the restoration of the highway, energy, communications, transport, productive equipment and housing infrastructures which would be necessary in order to make good the damage, any estimate would come to hundreds of millions of dollars at least.

Other circumstances have also severely affected the distribution and production structures. For example, besides the traditional emigration abroad which has mainly been due to the constant population explosion, in recent years there has been an exodus of persons of all levels of skills, among them many technicians and professionals. Similarly, partly because of the conflict and partly because of the search for work opportunities, internal migrations of the population from one region to another have continued to expand, whereas in the past such movements only occurred during the sugar harvesting season. Finally, the financial difficulties and climate of skepticism with respect to the ending of the armed struggle and the prospects for a reactivation of the economy have led to neglect the maintenance of machinery, livestock herds and plantations and a very severe reduction in the inventories of raw materials and essential inputs. On some occasions, the faulty management of equipment or delayed maintenance was due to the fear of acts of violence, which were increasingly frequent as the year progressed.

Added to this very sombre picture were adverse factors of external origin which are described below, and which had even more serious economic effects in 1981 than in the previous year.

In 1981 the country suffered for the third consecutive year from a contraction of economic activity. The gross domestic product, which had declined by a little under 2% in 1979 and by nearly 10% in 1980, again contracted by a similar amount to the previous year. In the case of gross income, the drop was more pronounced because the terms of trade deteriorated for the fourth year in a row. In other words, over the past three years there has been a decline of 20% in productive activity —meaning that the per capita product fell in 1981 to the level of 20 years before— and a decrease of 26% in per capita income. The very sharp decline of economic activity was also clearly reflected in underemployment and open unemployment. According to official estimates, the latter rose from almost 17% in 1980 to 25% in 1981, one of the highest figures in Latin America. The negative effect of this increase was also reinforced by a decline of almost 13% in real wages and salaries (see table 1 and figure 1).

The critical economic situation again reflected a combination of domestic factors —especially the armed conflict— and those of foreign origin. Among the latter was the international economic recession, which affected almost all the countries of the region in varying degrees in 1981 and thus also contributed to a loss of dynamism in trade with Central America.

¹ Although the economic situation in El Salvador in 1981 is presented in this chapter according to the outline usually used in the *Survey*, the impact of extra-economic factors on the development of the national economy is treated more thoroughly than before. In this regard, it should be kept in mind that the structural causes and persistence of external limitations which have been contributing to the division of Salvadorian society for several years were accompanied in 1981 by the dramatic situation of large contingents of the population who were forced to reduce the satisfaction of their basic needs substantially in the face of a gradual decline in economic activity and growing job instability.

Indeed, since the sharp deterioration of the terms of trade in 1981 came on top of the drop of almost 30% suffered by the latter in the three previous years, it was a serious obstacle which would have affected the economic situation even if there had not been such an intense political conflict, for while there was a moderate increase in the prices of imports, this was accompanied by a very sharp drop in the prices of coffee and cotton, the two products which account for most of the income of the country.

Likewise, although the volume of imports dropped because of the application of a more restrictive buying policy —due in particular to the meager levels of international reserves— the recession caused a severe contraction in export volumes. The resulting deterioration in the balance of payments was reflected in three facts: (a) the negative trade balance quadrupled; (b) the current account deficit more than doubled, and (c) the international reserves decreased sharply for the

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	1 974	2 052	2 176	2 307	2 272	2 054	1 859
Population (millions of inhabitants)	4.1	4.3	4.4	4.5	4.7	4.8	4.9
Per capita gross domestic product (1970 dollars)	476	481	495	510	488	428	376
Growth rates							
B. Short-run economic indicators							
Gross domestic product	5.6	4.0	6.1	6.0	-1.5	-9.6	-9.5
Per capita gross domestic product	2.6	1.0	3.0	2.9	-4.4	-12.2	-12.1
Gross domestic income ^b	5.7	9.1	11.4	1.7	-0.2	-12.4	-11.7
Terms of trade (goods and services)	1.4	27.9	26.5	-15.7	1.0	-10.7	-11.7
Current value of exports of goods and services	15.5	46.5	27.0	-10.3	41.9	-18.6	-15.1
Current value of imports of goods and services	6.4	27.4	25.5	13.4	2.5	-5.3	-3.8
Consumer prices							
December - December	15.1	5.2	14.9	14.6	14.8	18.6	11.6
Variation between annual averages	19.1	7.0	11.8	13.3	15.9	17.4	14.8
Money	16.4	41.4	7.8	9.9	21.6	7.2	-1.5
Wages and salaries ^c	...	...	...	-5.9	1.7	-6.1	-12.9
Unemployment rate ^d	...	...	...	3.7	6.7	16.2	25.0
Current income of government	19.3	40.2	45.8	-13.1	18.3	-14.4	5.4
Total expenditure of government	19.5	33.9	17.5	12.2	12.8	17.6	9.0
Fiscal deficit/total expenditure of government	11.9	7.7	14.5 ^e	11.3	7.0	32.3	34.6
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-80	12	29	-229	156	-40	-169
Balance on current account	-95	19	22	-245	123	-117	-239
Variation in international reserves	30	84	41	55	-134	-75	-42
External debt ^f	242	280	280	339	398	475	634

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cReal minimum wages of agricultural worker, except for harvesting of coffee, sugar cane and cotton.

^dPercentages.

^eSurplus.

^fDisbursed external debt public.

third consecutive year. Despite a considerable increase in foreign loans—which were not always allocated to productive sectors or infrastructural works—El Salvador maintained a relatively small medium- and long-term external debt, especially compared with that of other Central American countries.² However, it should be noted that short-term indebtedness continued to increase significantly.

One of the weakest points in the 1981 economic situation was the growing imbalances in the Government finances, although it may be assumed that they were not due to inflation, since the rate of the latter declined from 19% in 1980 to 12% in 1981 as a result of the stabilization programme and the careful management of the monetary variables. Tax collection, however, suffered the effects of the recession and the drop in the international prices of export products, and this counteracted the increase in the collection of other taxes, whose trend depends essentially on the rise in prices. Despite the austerity policy and strict selectivity in outlays, expenditure rose more rapidly than current income, thus resulting in a rise of more than US\$ 80 million in the Government deficit, compared with an increase of approximately US\$ 400 million in the latter during the previous year. Similarly, financial imbalances became worse in some public enterprises, such as that responsible for the distribution of electricity, due to the fact that, on the one hand, electricity consumption decreased, while on the other, the generation of electric power suffered sizeable losses from the acts of violence which affected the transmission lines, the repair of which required extraordinary expenditures.

During 1981 the restrictive nature of the monetary policy was accentuated. Contributory factors in this were the contraction of the international reserves and the orientation of net domestic credit, which went largely to the central government, to the detriment of credit to public institutions and the private sector. In order to help contain the inflationary process, the monetary authorities chose not to expand the creation of money and tried to remedy the public finance situation rather than seeking to promote productive activity, in view of the apparent irreversibility of the recession due to the imbalance in the productive apparatus, and especially the extremely unfavourable behaviour of the external variables.

2. Trends in economic activity

(a) *Total supply and demand*

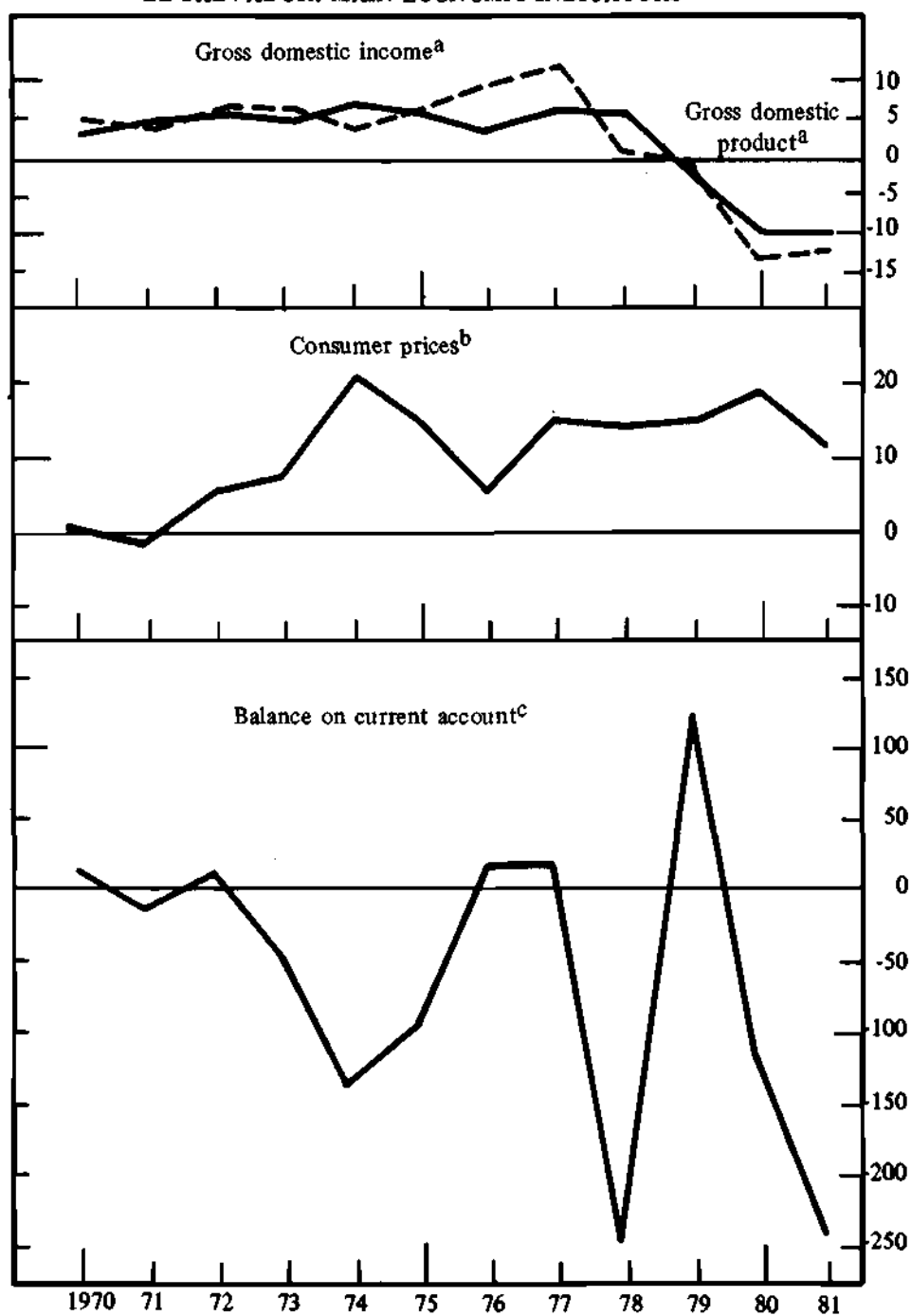
In 1981 the degree of contraction of the economy was relatively similar to that registered the previous year, but it was more serious because it occurred for the third consecutive year. Thus, over the past three years total supply has dropped nearly 25%, the decrease in the volume of imports being much more pronounced than that of the domestic product (see table 2).

The causes of the decline in productive activity were mostly the same as those observed in 1980,³ but they were made even worse by an attitude of deep skepticism with regard to the short-term prospects of the country, which contributed to the fact that only minimal production programmes were established, and almost all investment was stopped. Various other factors also had an influence on this situation: the intensification and territorial expansion of the conflict—which had an undoubted impact on agricultural activity—together with frequent acts of sabotage affecting the productive apparatus and distribution machinery; the delayed effects of a certain neglect of the productive equipment since the beginning of the confrontation, particularly in industry but also in the agricultural sector, where there was some lack of care of livestock herds and plantations; the natural delay before the reforms carried out by the Government could bear fruit, and finally the deterioration of the Central American market on which some previously very dynamic activities basically depended. In summary, during 1981 the economy operated with a high percentage of idle capacity, and the obstacles encountered—fundamentally financial—made it necessary to resort to a large extent to the running down of inventories of raw materials.

²In 1981 the medium- and long-term external public debt was a little under US\$ 635 million. As a comparison, the per capita external debt amounted to slightly over 10% of that of Costa Rica.

³See the chapter on El Salvador in the *Economic Survey of Latin America 1980*, CEPAL, Santiago, Chile.

Figure 1
EL SALVADOR: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bDecember - December percentage variation.

^cMillions of dollars.

At the same time, the volume of imports was nearly 40% lower than that of three years before. This was mainly due to the decrease in the purchasing power of the country, partly because of the accumulated effect of the trade deficits which were not offset by entry of capital, thus resulting in a substantial decline in the international reserves. The drop in these reserves, along with the growing imbalance in the Government finances, led the authorities to adopt a stabilization programme early in 1981, which caused external purchases to contract even further.

On the demand side, the depression was very generalized under almost all headings for the third consecutive year and was manifested in declines of around 9% in both domestic demand and in export volume. In the latter case, the principal causes of the decline were the low levels of production of the principal export products and the above-mentioned weakness in the Central American market. As regards domestic demand, the deterioration in gross fixed investment was very significant, since it decreased by approximately 14%, due to similar declines in investment made by the public sector and by private activity, resulting in a notable drop in construction and a radical decline in purchases of equipment and machinery. As stocks of goods also declined, total investment fell by more than 18% during the year, thus making a descent of nearly 70% in the past three years.

From the point of view of private consumption, the situation became extremely serious because of the deterioration in real wages and the increase in levels of unemployment and underemployment. This decline, along with that of the two previous years, resulted in a decrease in personal consumption of around 18% in the past three years (see table 2). These dramatic results imply that at the same time the structure of private consumption must have undergone a rapid change, with a relative increase in the demand for essential goods such as food, to the detriment of demand for other less necessary goods. Despite this fact, the drop in absolute values of food consumption, largely caused by the insufficiency of supply, reflected a substantial reduction in the satisfaction of basic needs.

Table 2

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	2 821	2 498	2 263	118.3	121.8	-3.1	-11.4	-9.4
Gross domestic product at market prices	2 272	2 054	1 859	100.0	100.0	-1.6	-9.6	-9.5
Imports of goods and services ^b	549	444	404	18.3	21.8	-9.0	-19.0	9.0
Total demand	2 821	2 498	2 263	118.3	121.8	-3.1	-11.4	-9.4
Domestic demand	2 328	2 114	1 914	100.8	103.0	-7.4	-9.2	-9.5
Gross domestic investment	494	292	239	15.5	12.9	-10.6	-40.9	-18.2
Gross fixed investment	473	299	257	13.1	13.8	-9.7	-36.8	-14.0
Public	166	143	123	3.5	6.6	0.9	-13.8	-14.5
Private	307	156	134	9.6	7.2	-14.6	-49.2	-13.6
Construction	182	120	110	5.6	5.9	-10.0	-34.2	-7.9
Machinery and equipment	291	179	147	7.5	7.9	-9.2	-38.5	-18.1
Changes in stocks	21	-7	-18	2.4	-0.9			
Total consumption	1 835	1 822	1 675	85.3	90.1	-6.5	-0.6	-8.1
General government	290	298	295	10.0	15.9	4.1	2.9	-1.0
Private	1 545	1 524	1 380	75.3	74.2	-8.2	-1.3	-9.4
Exports of goods and services ^b	493	384	349	17.5	18.8	24.7	-22.1	-9.1

Source: ECLA estimates on the basis of official data supplied by the Central Reserve Bank of El Salvador.

^a Preliminary figures.

^b The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

Finally, government consumption fell slightly for the first time in recent years, as a result of the stabilization policy adopted by the authorities early in 1981.

(b) *Evolution of the main sectors*

Although the intense depression of economic activity was not in itself worse than that of the previous year, when added to the former it obviously aggravated the already critical situation. With the exception of government activity and ownership of dwellings, the value added by the rest of the sectors declined in various degrees, the most pronounced drops being in manufacturing, commerce and transport (see table 3).

(i) *Agriculture.* The decline in agricultural activity was less pronounced than in economic activity as a whole, but because of the importance of this sector as a generator of foreign exchange and employment and as a supplier of essential goods its deterioration was one of the principal maladjustments of 1981.

There was a decline in the harvests of almost all crops, both for export and for domestic consumption, and in many cases for the second or third year in a row. As a result of this, levels of production were lower than those of 1978 in all cases (see table 4).

Among the strictly economic causes of this decline, one of the most decisive was the behaviour of the international prices of some of the principal products exported by the country —coffee, cotton, sugar and beef—, whose gradual decline increasingly discouraged production and at the same time led to neglect of the plantations, equipment and livestock herds. To this were added such problems as lack of availability of credit and difficulties in obtaining inputs such as fertilizers and weed killers, due to the lack of foreign exchange.

Table 3
EL SALVADOR: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY

	Millions of 1970 dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product^b	2 099	1 897	1 527	100.0	100.0	-1.5	-9.6	-9.5
Goods	1 048	922	839	51.7	48.5	-1.7	-11.9	-9.1
Agriculture, hunting, forestry and fishing	573	539	516	30.3	29.9	1.5	-5.9	-4.3
Mining and quarrying	3	3	3	0.2	0.1	3.1	2.5	-2.1
Manufacturing	377	318	263	17.9	15.2	-2.9	-15.5	-17.4
Construction	95	62	57	33.3	3.3	-14.4	-34.2	-7.9
Basic services	174	165	142	6.8	8.2	-2.7	-5.1	-13.6
Electricity, gas and water	53	52	49	1.7	2.8	7.3	-1.4	-5.2
Transport, storage and communications	121	113	93	5.1	5.4	-6.5	-6.7	-17.4
Other services	870	810	748	41.5	43.3	-0.8	-6.9	-7.8
Wholesale and retail trade, restaurants and hotels ^c	423	367	319	19.8	18.4	-2.1	-13.2	-13.3
Ownership of dwellings	78	81	82	3.9	4.7	3.5	3.0	1.0
Community, social and personal services ^d	369	362	347	17.8	20.2	-0.1	-1.7	-4.3
Government services	208	215	220	8.8	12.7	3.8	3.5	2.4

Source: ECLA, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cIncludes financial institutions, insurance and real estate, except ownership of dwellings.

^dIncludes restaurants, hotels and business services.

Table 4

EL SALVADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1978	1980	1981 ^a
Index of agricultural production (1968 = 100)	152.4	155.4	146.2 ^b	139.9 ^b	2.9	-5.9	-4.3
Crop farming	146.4	150.3	142.8 ^b	133.1 ^b	3.9	-5.0	-6.8
Stock-raising	173.0	173.2	160.4 ^b	161.8 ^b	0.1	-7.4	0.9
Production of the main crops^c							
Coffee	3 521	3 807	3 600	3 436	8.1	-5.4	-4.6
Ginned cotton	1 713	1 410	1 349	987	-17.7	-4.3	-26.8
Sugar cane	3 692	3 214	2 415	2 455	-12.9	-24.9	1.7
Maize	11 088	11 392	11 473	10 078	2.6	0.7	-12.2
Beans	939	1 010	852	812	7.6	-15.6	-4.7
Milled rice	1 104	1 266	1 320	1 050	14.7	4.3	-20.5
Sorghum	3 518	3 485	3 041	3 000	-0.9	-12.7	-1.3
Indicators of stock-raising							
Number of animal slaughtered ^d							
Cattle	217	203	173	164 ^e	-6.5	-14.8	-5.3 ^f
Pigs	168	150	127	141 ^e	-10.7	-15.3	11.0 ^g
Milk	376	410	351	...	9.0	-14.4	...
Eggs ^h	834	836	781	...	0.2	-6.6	...

Source: ECLA, on the basis of official data supplied by the Central Reserve Bank of El Salvador, the Ministry of Agriculture and the Ministry of Planning and Co-ordination of Economic and Social Development.

^a Preliminary figures.

^b Estimated on the basis of variations in the value added at constant prices.

^c In thousands of quintals, with the exception of sugar cane, which is expressed in thousands of tons.

^d Thousands of head.

^e Estimated on the basis of variations in livestock slaughtering in the municipal slaughterhouses of departmental capitals and export slaughterhouses between the period January-September 1980 and the same period in 1981.

^f Millions of bottles.

^g Millions of units.

Moreover, although the agrarian reform decreed early in 1980⁴ was not fully implemented, it at least reached farms of more than 500 hectares, where a high proportion of the cotton, sugar cane and livestock and approximately one-fifth of the coffee are produced. An attempt was made to maintain the traditional productive structure in the form of co-operatives, but even if there had not been extra-economic conflicts in 1981, there would still have been limitations arising from the implementation of a process of reform which, according to past experience, almost always requires several years to bear fruit and which, in the case of El Salvador, has been affected by the shortage of skilled and semi-skilled human resources for managing the expropriated farms.

To the above restrictions must be added the climate of upheaval which was reflected in the gradual increase in acts of sabotage directed against the production, harvesting and distribution of many articles and which even affected the production and communications infrastructure. In addition, many business groups tenaciously opposed the implementation of the Government's economic policy, demanding more credit support and different "rules of the game", which were difficult to establish and maintain in view of the precarious financial situation, both domestic and foreign, and the growing difficulties caused by the economic and extra-economic obstacles. All these factors grew in importance in 1981 and led to a widespread slowdown in agricultural activity.

⁴ At the beginning of 1980 the Government decreed the expropriation of farms of more than 500 hectares, and several months later that of properties of 100 to 500 hectares, with the possibility of the latter being awarded to their tenants.

In the case of coffee, the principal export product, the further decline of approximately 5% in production was due to two particular causes, besides the general ones already mentioned. After the nationalization of foreign trade, and in view of the precarious financial situation of the country, the new body created to centralize coffee policy⁵ chose to accelerate coffee sales as much as possible, although the marketing process was less effective because stocks were not sufficient to allow speculation with the sale, as had been done before. This situation and the discontent of businessmen, either because of domestic price levels or because of the financial terms of the credit resources obtained, led to a slowdown in efforts to increase the coffee harvest during the agricultural year 1980/1981. This climate of discouragement became worse, moreover, with the gradual deterioration of prices during the year. Moreover, the lack of attention to the coffee plantations led to the spread in 1981 of the damaging effects of rust, an increasingly difficult disease to fight.

Production of cotton, which is second on the list of commodities generating foreign exchange, had been declining since 1978, but in 1981 it dropped by almost 27% to a level less than 58% of that registered in the former year. The relative rise in international cotton prices in 1980 did not stimulate planting sufficiently, mainly because in the case of this crop the reformed area is very large and there are problems in administering it efficiently.

Although sugar cane was one of the crops most affected by acts of sabotage, production of it nevertheless rose by nearly 2% in 1981, after having declined by one-third in the previous two years. However, during 1981 the disease called "sugar cane smut" began to affect the plantations seriously and undoubtedly had an effect on the 1982 sugar harvest.

The crisis in the agricultural sector was also reflected in all its intensity in the low production of cereal, which created a serious food supply problem. The harvests of beans, maize and especially rice went down considerably, and although the drop in the production of sorghum was much less severe, it came on top of a previous sharp decline in 1980 (see table 4). This drop in the production of cereals and other essential items of the popular diet was one of the most important elements in the crisis, and its effects on the satisfaction of such a basic need of the population could not be offset by the support given by the Governments of Venezuela and the United States. Moreover, towards the middle of the year the Salvadorian Price Regulation Institute froze the prices of these products, and although this action helped to keep the inflationary process down, it somewhat discouraged a second planting, which is normally carried out at the beginning of the second half of the year.

As for livestock production, the few indicators obtained are relatively contradictory. On the one hand, cattle slaughtering went down once again, but by a smaller amount (-5%) than in the previous two years. On the other hand, there appears to have been an 11% increase in pig slaughtering, which had sharply contracted in previous years. However, it is possible that these indicators, although they come from official sources, do not reflect the real evolution of production, since in recent years the keeping of statistical records has been made extremely difficult, and for this reason in some cases it has been necessary to make estimates by indirect means. Moreover, the critical conflict situation has made it necessary in certain regions to slaughter animals more or less indiscriminately in order to satisfy the need for food. According to official qualitative information, poultry production also contracted substantially during 1981, and the same appears to have occurred in the case of milk and eggs.

As regards fishing—an activity which is still quite insignificant despite the financial support and technical assistance received in previous years—sufficient information is not available to evaluate its evolution. In 1981 the Government took measures to reorganize the sector, and among other complementary measures, the Ministry of Agriculture was made responsible for coordinating the implementation of the policy through a General Office of Fishery Resources, which thus took over some duties previously carried out by the Ministry of the Economy.

(ii) *Manufacturing.* Manufacturing, together with transport, storage and communications, was the activity most affected by the crisis. Industrial production, which had already decreased by 16% in 1980, fell by more than 17% in 1981, dropping to a level around one-third lower than that

⁵ At the beginning of 1980 the Instituto Salvadoreño del Café (National Coffee Institute) was established, absorbing and expanding the functions previously carried out by the Compañía del Café.

registered in 1978 (see table 5). This situation had a very unfavourable effect on employment. Thus, it is estimated that between the middle of 1980 and the middle of 1981 the number of workers in the manufacturing sector contributing to the social security system decreased by 35 000 persons, which also led to financial imbalances in the system.

As in 1980, the depression significantly affected all branches of manufacturing. The most seriously affected, however, were the industries manufacturing food, beverages and tobacco, clothing and leather products, and petroleum products and rubber, in all of which production decreased by more than 19%. Especially serious was the slowdown in the production of food, since along with the decline in production of cereals mentioned above this had a strong negative impact on the satisfaction of some of the basic needs of the population.

According to the results of an official survey,⁶ the main cause of the decline in production, in contrast with the two previous years, was the lack of imported raw materials. However, the informants also mentioned as other causes of the drop in production the insufficient domestic demand, problems of financing, and the rise in the cost of raw materials. On the other hand, in 1981 labour conflicts had almost no influence on the decline in manufacturing activity, although they had played a major part in the slowdowns recorded in the two previous years.

According to this survey, the recession in manufacturing was also manifested in a lower level of utilization of installed capacity, which dropped from 77% in 1979 to 72% in 1980 and 66% in the first half of 1981.⁷ Although the food industry was the one which used its capacity most (75%),

Table 5

EL SALVADOR: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Value added index (1977 = 100)	109.9	106.7	90.2	74.5	-2.9	-15.5	-17.4
Food, beverages and tobacco	109.1	104.5	90.3	80.2	-4.2	-13.6	-19.6
Textiles and clothing	111.0	114.1	94.8	79.6	2.8	-16.9	-16.0
Textiles	109.7	112.0	88.8	78.1	2.1	-20.7	-12.0
Clothing and leather products	113.0	116.9	101.0	81.6	3.4	-13.6	-19.2
Wood and paper	116.3	112.8	80.9	69.2	-3.0	-18.3	-14.5
Wood and its manufactures	117.0	101.8	81.0	71.1	-7.3	-20.4	-12.3
Paper and paper products	115.8	115.6	100.5	84.7	-0.2	-17.1	-15.7
Chemicals, petroleum products and rubber	109.8	104.3	87.2	72.8	-5.0	-16.4	-16.5
Chemical products	109.7	103.9	81.9	72.6	-5.3	-21.2	-11.4
Petroleum products and rubber products	110.0	104.8	91.7	73.2	-4.7	-12.5	-20.2
Non-metallic mineral products	104.1	94.9	75.0	66.3	-8.8	-21.0	-11.6
Machinery and metal products	110.0	116.8	94.2	81.6	6.2	-19.4	-13.3
Machinery and equipment	111.4	121.3	97.5	84.7	8.9	-19.6	-13.1
Metal products	107.6	108.3	87.7	75.6	0.6	-19.0	-13.8
Other manufactures	117.5	129.3	111.2	90.3	10.0	-14.0	-18.8
Other indicators of manufacturing production							
Industrial consumption of electricity (millions of KWH)	589	606	584	544 ^b	2.9	-3.7	-6.8 ^b
Employment (thousands) ^c	164	157	...	...	-4.3	...	...

Source: ECLA, on the basis of official data supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures.

^bEstimated on the basis of January-July variation.

^cOnly includes persons who worked 35 hours or more per week.

⁶The survey was made by the Central Reserve Bank of El Salvador with a sample of nearly 30% of all enterprises employing more than 100 workers.

⁷It is possible that the percentage of idle capacity was even greater in the medium-sized and small enterprises.

this nevertheless represented a marked decline. In the metal manufactures and machinery industry, the idle capacity was greater, with the rate of use declining from 65% in 1979 to only 40% in 1981. On the other hand, the percentage of capacity utilized in the chemicals branch stayed relatively high, thanks to a group of production units basically oriented towards the Central American market, despite the fact that, as mentioned above, the depression and stagnation in the other countries of the subregion also affected levels of production.

In the companies surveyed, the current value of acquisitions of machinery and equipment dropped by about 85% between 1979 and 1981, and investment in construction fell by more than 90%. Of this meager capital formation, slightly less than half was absorbed by the branches producing foodstuffs, beverages and tobacco. In view of the low demand for fixed investment in both 1980 and 1981, the financing obtained was almost completely used for working capital. In the opinion of the businessmen interviewed, among the causes hindering the procurement of financing was the shortage of lines of credit and the relative increase in the already high interest levels. The national banking system continued to be the main source of financing, while contributions from abroad declined.

According to another survey, made by private bodies,⁸ the political situation was the principal cause of the deterioration in production in 1981, followed in order of importance by the shortage of foreign exchange, the decline in domestic demand, and the lack of external supply of raw materials. In the case of the enterprises connected with the Central American Common Market, an important cause was the problem of payments between the countries. This survey coincides with that of the Central Bank in indicating that labour conflicts did not constitute a determining factor in the contraction of activity. Finally, in the industrial enterprises surveyed, employment declined by more than 15% in 1980 and by nearly 14% in the first eight months of 1981.

(iii) *Construction.* In 1981 the gross domestic product of construction dropped by 8%, and as the decline in the previous two years had been much greater, the level of activities thus barely exceeded half of that recorded in 1978 (see table 3).

The generalized recession again limited private investments. Towards the middle of the 1970s, construction of medium- and high-level housing had been gradually increasing through the savings and loan system, while some efforts made during those years to construct low-income housing and infrastructure works also helped to transform this activity into a source of dynamism within the economic system. Once these possibilities had been exhausted, however (especially because of the high proportion of imported inputs required by houses constructed under the

Table 6

EL SALVADOR: INDICATORS OF THE PRODUCTION
AND CONSUMPTION OF ELECTRICITY

	1978	1979	1980	1981	Growth rates		
					1979	1980	1981 ^a
Net production (thousands of KWH)	1 378	1 496	1 462	1 388	8.6	-2.3	-5.1
Total consumption (thousands of KWH)	1 186	1 314	1 272	1 201	10.8	-3.2	-5.6
Residential	326	367	393	390	12.6	7.1	-0.8
Commercial	193	208	220	181	7.8	5.8	-17.7
Industrial	555	619	533	440	11.5	-13.9	-17.4
Government and other	112	120	126	190	7.1	5.0	50.8

Source: ECLA, on the basis of figures supplied by the Inspección General de Empresas y Servicios Eléctricos (IGSE) and information from the Comisión Ejecutiva Hidroeléctrica del Río Lempa (CEL) and the Compañía de Alumbrado Eléctrico (CAESS).

^aPreliminary figures.

⁸Made by the Chamber of Commerce and Industry of El Salvador.

savings and loan system), and in view of the financial imbalances of the public and private sectors, construction was one of the first activities affected by the depression which began in 1979 and worsened in the next two years. In turn, its deterioration had an intense and cumulative impact on unemployment.

In order to relieve the crisis, during the first months of the year the administration adopted measures designed to reactivate construction by means of public expenditure. This was oriented towards expanding essential urban services (sanitation, sewerage, water supply, pumping and storage, etc.), improving certain marginal areas, intensifying the implementation of energy programmes begun in previous years, and promoting the building of some housing, for which some international credit support was received. However, as will be seen below, the financial difficulties of the Government made it necessary to postpone the execution of these projects in the context of a relatively austere economic policy.

(iv) *Basic services.* As a whole, the provision of basic services declined considerably, especially because of the deterioration of the transport sector, whose product dropped more than 17% due to the smaller movement of domestic and imported cargo and, to a lesser extent, the reduction in passenger transport. In both cases, especially in the last months of the year, the automotive equipment suffered from acts of sabotage which are difficult to quantify but which will require quite large investments when efforts are made to reactivate the economy after peace is restored.

The sectors producing electricity, gas and water were also affected by the general critical situation. The drop in the generation of electricity was primarily due to contractions of approximately 17% in both commercial and industrial consumption and a slight drop in residential consumption. Only government consumption and that of municipalities increased sharply (51%) because of street lighting and other complementary projects, but this demand only accounted for 16% of total consumption (see table 6).

(v) *Other services.* Of the other activities producing services, only government services and ownership of dwellings showed a slight increase (see table 3). In the first case, this was due to the fact that, despite the austerity policy, government activity continued to be carried out especially through current expenditure, and the staff of public servants was generally retained.

(c) *Employment and unemployment*

Because of the enormous decline in economic activity in recent years, there can be no doubt that in 1981 unemployment and underemployment reached unprecedented levels, although in view of the climate of instability existing in part of the territory any estimate of unemployment not taken from census data may be subject to a large margin of error. However, taking into account, on the one hand, that the deterioration in total economic activity of approximately 20% over the last three years must have caused very grave employment problems and, on the other, that an official report estimated open unemployment at about 25% in late 1981 (see table 7), it must be concluded

Table 7

EL SALVADOR: EVOLUTION OF UNEMPLOYMENT

	1978	1979	1980 ^a	1981
Unemployment rates				
National	3.7	6.7	16.2	25.0 ^b
Agricultural sector	3.3	7.8	...	...
Other activities	4.0	5.7	8.9	...

Source: CLA, on the basis of figures supplied by the Ministry of Planning and Co-ordination of Economic and Social Development.

^aFirst half of year.

^bSee *Informe sobre la economía*, made public by the President of the Central Reserve Bank of El Salvador on 22 December 1981.

that the employment situation not only reached unprecedented dimensions in El Salvador but was also one of the worst observed in the whole region in the past few decades.

On the other hand, it must be borne in mind that neighbouring countries, and even some not bordering on the country, such as Mexico and the United States, have been receiving high contingents of Salvadorian labour over the past two years which have greatly exceeded the traditional migratory flows. Although precise data are not available on the total number of Salvadorians who have left the country in recent years, it is estimated that this could be as high as 400 000 persons. Assuming that probably between 35% and 40% of this number correspond to members of the labour force, it may be assumed that unemployment would have been considerably higher if they had remained in the country.⁹ Finally, some partial data confirm the ever-increasing decline in levels of employment. Thus, the above-mentioned survey made by the Chamber of Commerce and Industry indicates that between January 1980 and August 1981 employment dropped 27% in manufacturing, 56% in construction, 25% in commerce, 33% in transport and 16% in other services. This partial information refers essentially to what occurred in the cities, where levels of unemployment may have been greater than in rural areas. In the latter, subsistence agriculture and small enterprises, which are very numerous, maintain certain levels of employment even in critical situations. Moreover, compared with a decline in the agricultural added value of somewhat over 4%, that of the rest of the economic activities, which are essentially urban, decreased nearly 12%.

3. The external sector

In 1981, the domestic difficulties were compounded by those coming from the exterior, for the terms of trade evolved very unfavourably through the year, and this fact, added to the obstacles persisting from previous periods —such as the flight of capital— made it necessary to continue applying a very austere external supply policy and to take a series of exchange control measures in early 1981.¹⁰ As this did not yield the expected results, however, and the support from the

Table 8
EL SALVADOR: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods						
Value	39.7	30.7	-12.8	44.2	-20.9	-18.2
Volume	1.5	-3.2	2.5	27.6	-22.8	-9.1
Unit value	37.6	35.0	-15.0	13.0	2.5	-10.0
Imports of goods						
Value	23.6	26.5	10.5	-1.3	-3.4	-5.4
Volume	21.2	22.6	5.2	-13.6	-18.7	-9.5
Unit value	2.0	3.2	5.0	14.2	18.9	4.6
Terms of trade (goods)	34.5	30.5	-19.0	-0.8	-13.1	-14.3
Indexes (1970 = 100)						
Terms of trade (goods)	120.3	157.1	127.2	126.1	109.6	93.9
Purchasing power of exports of goods	170.5	213.8	177.4	227.1	153.8	118.9
Purchasing power of exports of goods and services	183.3	223.3	190.5	239.9	167.0	134.0

Source: ECLA, on the basis of official data.

^aPreliminary figures.

⁹In June 1980, the economically active population was estimated at slightly under 1 600 000 persons (see Ministry of Planning, *Indicadores económicos y sociales*, July-December 1980, p. 214).

¹⁰This policy regulated travel expenditures, support of students and medical and hospital expenses abroad, and established very strict rules regarding external purchases of goods.

Table 9
EL SALVADOR: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	847	1 135	969	792	100.0	100.0	34.0	14.7	-18.3
Main traditional exports	561	811	621	502	66.1	63.4	44.6	-23.5	-19.2
Coffee	433	685	512	399	51.1	50.4	58.1	-25.3	-22.1
Cotton	98	87	83	67	8.9	8.5	-11.6	-4.6	-19.3
Sugar	19	27	13	19	3.0	2.4	49.1	-51.9	46.1
Shrimps	11	13	13	17	2.2	2.1	17.8	-	30.8
Main non-traditional exports	47	53	63	45	4.8	5.7	12.8	18.9	-28.6
Perfumeries toiletries and cosmetics	11	13	15	10	0.1	1.3	20.7	15.4	-33.3
Insecticides, fungicides and disinfectants	5	4	5	4	0.8	0.5	-14.2	25.0	-20.0
Cotton yarn and thread	9	10	11	9	1.3	1.1	2.0	10.0	-18.2
Clothing	22	26	32	22	2.6	2.8	16.2	23.1	-31.2
Remainder	239	271	285	245	29.1	30.9	13.4	5.2	-14.0

Source: ECLA, on the basis of official data supplied by the Central Reserve Bank of El Salvador and the Ministry of Planning and Co-ordination of Economic and Social Development.

^aPreliminary figures.

international financial community was insufficient to provide the medium- and long-term credit needed (although the latter exceeded that of previous years), the net international reserves decreased considerably. This did not occur in the case of the gross international reserves, because the short-term indebtedness continued to increase as in 1980 (see figure 2).

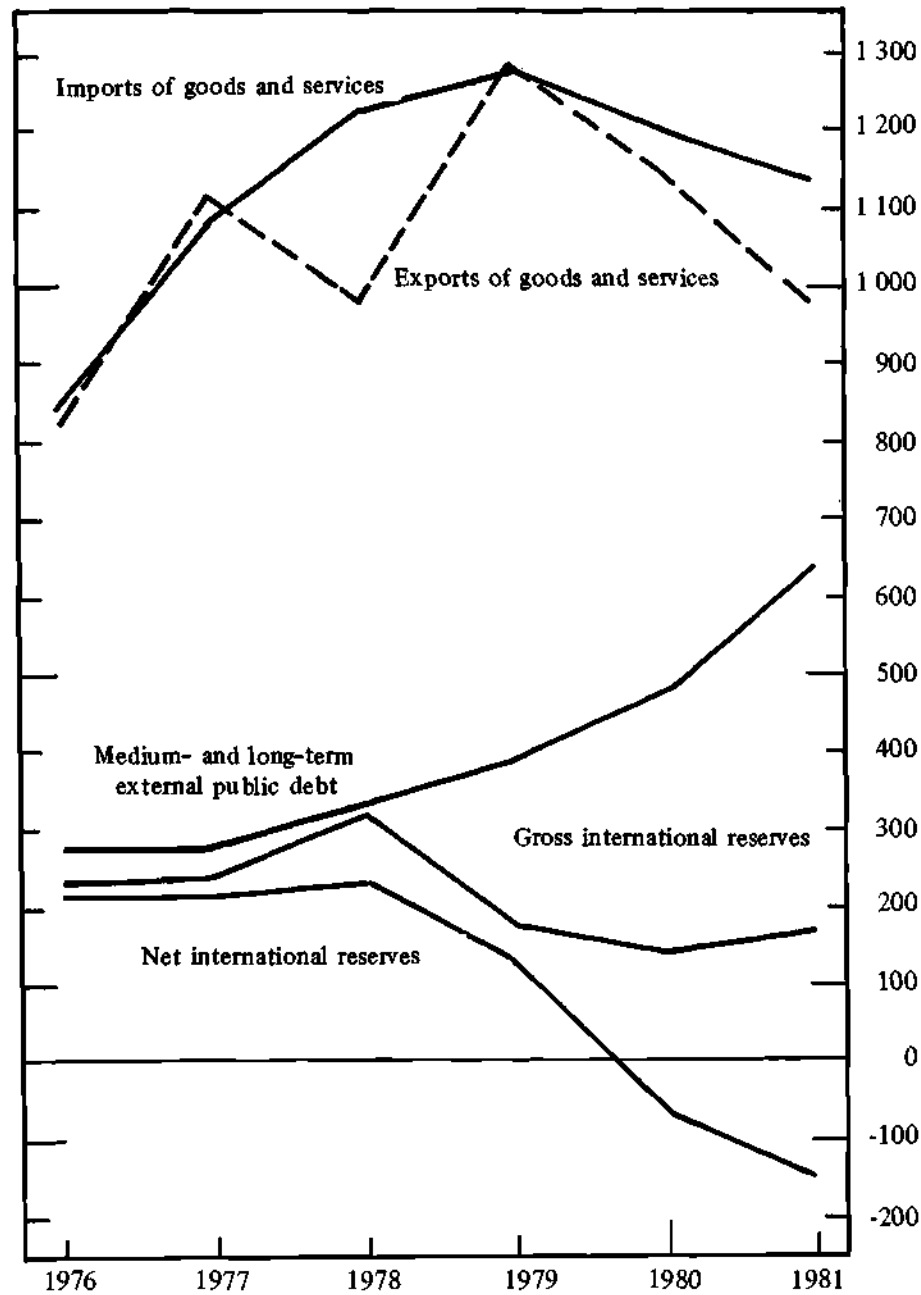
(a) *Merchandise trade*

After registering a surplus of slightly over US\$ 60 million in 1980, the merchandise trade balance showed a deficit of US\$ 66 million in 1981. The cause of this turnaround was the sharp decline for the second consecutive year in the value of exports, which was far more pronounced than the drop in the value of merchandise imports. This 18% drop in the value of exports was due to similar decreases in both volume and unit value (see table 8). The latter was affected especially by the sharp drop in the international prices of the principal export products in 1981. Thus, while the price of coffee sold by El Salvador dropped by an average of nearly 33%, the prices of cotton, sugar and shrimps fell to less than half the previous levels.

Sales of coffee and cotton, whose export has a strong impact on the Salvadorian economic system, declined by approximately 20%. On the other hand, sugar and shrimp exports rose 16% and 31% respectively, due to a relative recovery in their levels of production. However, since these goods still carry little weight within the structure of exports, these rises represented an increase of barely US\$ 10 million (see table 9).

The deterioration of intra-Central American trade led to a sharp contraction in the value of the principal non-traditional exports. The decline was especially noteworthy in the case of clothing, perfumery and cosmetics, etc. This was in contrast to what occurred in 1980, when this trade was still an active element in a group of important industrial activities. Trade with the rest of Central America slowed down because of the stagnation or economic depression of the other countries of the area, the effects of which were aggravated by the measures taken by some countries in respect of payments and selectivity of purchases because of the external liquidity problems affecting several of them.

Figure 2
EL SALVADOR: EVOLUTION OF EXPORTS, IMPORTS, EXTERNAL
PUBLIC DEBT AND INTERNATIONAL RESERVES



Source: ECLA, on the basis of data provided by the Central Reserve Bank of El Salvador.

On the import side, the growing difficulties as regards the balance of payments had already caused a gradual reduction in external purchases in previous years. In early 1981, with the worsening of the external financial situation, the Government formulated a stabilization programme involving the control of imports through a system of prior deposits and measures aimed at eliminating all unnecessary purchases.¹¹ The value of imports was thus reduced by approximately 5% for the second consecutive year. Although this decrease affected all categories of imported goods except fuels, it was especially severe in the case of capital goods and consumer durables. The value of imports of the latter fell by 50% to a level only slightly over a quarter that of only three years previously. Over the same period, imports of capital goods fell by 66% (see table 10).

Although in 1981 the unit value of imports increased at a much slower rate than the preceding two years, the drop in the prices of the principal export products caused a 14% deterioration in the terms of trade of goods. This unfavourable situation came on top of the continual deterioration registered in the terms of trade since 1978, after coffee prices had risen considerably in the two-year period 1976-1977. The decline in the terms of trade thus came to over 40%, and when added to the drop in the volume of exports this meant that in 1981 the purchasing power of the latter dropped by nearly 23% (see table 8).

(b) The services trade and factor payments

As in the previous year, the deficit on the services account slightly exceeded US\$ 100 million. This stability was partly due to the fact that although there was little inflow of tourists into the country,¹² the outflow of Salvadorian tourists also diminished substantially.

Table 10
EL SALVADOR: IMPORTS OF GOODS CIF

	Millions of dollars				Percentages breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	1 028	1 021	972	920	100.0	100.0	-0.7	-4.8	-5.3
Consumer goods	266	268	307	284	33.4	30.9	0.6	14.6	-7.5
Durables	62	53	34	17	...	1.9	-14.7	-35.9	-50.0
Non-durables	204	215	273	267	...	29.0	5.2	27.0	-2.2
Intermediate goods	494	546	544	544	48.9	59.1	10.7	-0.4	-
Petroleum and fuels	83	122	151	170	1.2	18.5	46.7	23.8	12.6
Construction materials	77	72	57	57	...	6.2	-5.6	-20.8	-
Others	334	352	336	317	47.7	34.4	5.4	-4.5	-5.7
Capital goods	268	207	121	92	17.7	10.0	-22.8	-41.5	-24.0

Source: ECLA, on the basis of official data supplied by the Central Reserve Bank of El Salvador and the Ministry of Planning and Co-ordination of Economic and Social Development.

^aPreliminary figures.

¹¹In 1981 the provisions which had been in effect in this respect since 10 November 1980 were extended for a further period. Among the imports prohibited were the following: alcoholic beverages, tobacco products, perfumes, cosmetics, cloth, blankets, bed linen, glassware, gold and silver jewellery, radios, television sets, music centres, washing machines, motor vehicles, yachts, phonographs, etc. In principle, this provision did not apply to products from Central America and Panama.

¹²According to official information, income from tourists entering the country decreased 21% in 1977, 47% in 1980 and 56% in the first half of 1981, compared with the same period in 1980 (see Ministry of Planning and Co-ordination of Economic and Social Development, *Indicadores económicos y sociales*, January-June 1981).

Table 11
EL SALVADOR: BALANCE OF PAYMENTS
(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	871	1 107	992	1 408	1 145	972
Goods FOB	745	973	849	1 224	969	792
Services ^b	127	133	143	184	177	180
Transport and insurance	13	19	23	24	25	20
Travel	30	32	37	25	13	16
Imports of goods and services	859	1 078	1 222	1 252	1 186	1 141
Goods FOB	681	861	951	939	907	858
Services ^b	178	217	271	314	279	283
Transport and insurance	70	88	98	107	84	80
Travel	43	58	103	117	106	106
Merchandise balance	64	112	-102	286	62	-66
Trade balance	12	29	-229	156	-40	-169
Profits and interest	-18	-38	-60	-78	-94	-86
Profits	-11	-26	-26	-45	-30	-25
Interest received	28	20	15	40	7	9
Interest paid	-36	-32	-49	-72	-72	-70
Unrequited private transfer payments	24	30	45	45	17	16
Balance on current account	19	22	-245	123	-117	-239
Unrequited official transfer payments	5	9	7	6	31	12
Long-term capital	74	36	175	78	177	...
Direct investment	13	19	23	-10	6	...
Portfolio investment	18	1	4	-6	-1	...
Other long-term capital	43	17	148	94	172	...
Official sector ^c	15	20	115	83	170	...
Loans received	50	37	127	100	204	...
Amortization payments	-33	-16	-10	-16	-29	...
Commercial banks ^c	-	-	-	-	3	...
Loans received	-	-	-	-	4	...
Amortization payments	-	-	-	-	-1	...
Other sectors ^c	28	-3	32	11	-2	...
Loans received	46	51	54	22	36	...
Amortizations payments	-20	-72	-32	-11	-37	...
Basic balance	97	67	-64	208	91	...
Short-term capital	13	6	195	-127	43	...
Official sector	1	-1	24	-15	199	...
Commercial banks	12	20	4	-2	-67	...
Other sectors	-	-14	167	-110	-89	...
Errors and omissions (net)	-26	-32	-76	-214	-209	184
Balance on capital account	65	19	301	-257	43	197
Global balance ^d	84	41	55	-134	-75	-42
Total variation in reserves ^d (minus sign indicates an increase)	-84	-41	-57	128	69	36
Monetary gold	-	-	-	-	-	-
Special Drawing Rights	-	-5	-	-7	17	-
IMF reserve position	-	-6	-5	-	11	-
Foreign exchange assets	-78	-15	-51	135	34	6
Other assets	-	-	-	-	-	-
Use made of IMF credit	-6	-15	-	-	7	31

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook*; 1981: ECLA, on the basis of official data.

^aPreliminary figures.

^bServices also include other official and private transactions, but not profits and interest.

^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variation due to revaluation.

Factor payments decreased slightly, mainly because with the deepening of the recession remittances of profits to the exterior fell by US\$ 5 million.

(c) *The current account situation and its financing*

Because of the deterioration in the trade balance, the negative balance on the current account totalled nearly US\$ 240 million: more than double the figure of slightly under US\$ 120 million registered the previous year. As the net flow of capital came to approximately US\$ 200 million, the international reserves decreased for the second time in the past three years, thus aggravating the critical shortage of foreign exchange (see table 11). Because of this, together with the continued flight of capital (although at a slower rate than the previous year) and the need to import some non-authorized raw materials and products, the price of the US dollar on the informal parallel currency market was as much as 40% higher than the official rate of exchange.

(d) *External indebtedness*

According to available information, the balance of the disbursed medium- and long-term external debt, which had come to US\$ 475 million in 1980, was over US\$ 630 million in 1981. Approximately 60% of this increase was absorbed by official institutions, while the remaining 40% was used by the central government (see table 12). Among the credit which went to official institutions, an important proportion consisted of loans provided especially by international financial bodies, in order to continue the construction and expansion of energy¹³ and telecommunications projects, the expansion of the water main network and the improvement of drinking water services, as well as the equipment of storage plants. A particularly important disbursement to the central government was that earmarked for the improvement and expansion of the road network. It should be emphasized, however, that both the public bodies and the central government had difficulties in applying the funds immediately and in all cases for the intended purposes, either for administrative reasons or because of the austerity policy which became progressively more rigorous.

Table 12

EL SALVADOR: EXTERNAL PUBLIC INDEBTEDNESS

(Millions of dollars)

	1976	1977	1978	1979	1980	1981 ^a
External public debt^b	280	280	339	398	475	634
Central government	86	102	121	143	186	244
Official institutions	194	178	218	255	289	390
Guaranteed	120	149	193	235	273	371
Non-guaranteed	74	29	25	20	16	19
Servicing of external public debt	19	65	32	31	39	39
Amortization payments	8	54	15	16	20	15
Interest payments	11	11	17	15	19	24
Servicing of external debt, as a percentage of exports of goods and services	2.2	5.9	3.2	2.2	3.4	4.0

Source: ECLA, on the basis of official data.

^a Preliminary figures.

^b Disbursed.

¹³ Expansion of the Ahuachapán thermal plant, the San Lorenzo hydroelectric project, electrical interconnection with Guatemala, development of geothermal resources, etc.

The servicing of the external public debt remained almost unchanged, and barely accounted for 4% of total exports. Although this percentage was slightly higher than in 1980, it was much lower than that of the other countries in the area of relatively similar size. Nevertheless, it is worth repeating that in 1981 there was an intensification of the phenomenon observed during the previous year, consisting of a considerable increase in short-term indebtedness, which made it possible to maintain a minimum level of gross international reserves. The debt accumulated for these purposes—that is, the difference between the gross and net international reserves—exceeded US\$ 300 million at the end of 1981, or the equivalent of more than 30% of exports of goods and services.

4. Prices and wages

(a) *Prices and anti-inflationary policy*

Between 1976 and 1980 the price indexes, both consumer and wholesale, rose at gradually increasing rates. In the last months of 1980 this trend was accentuated, with certain basic necessities, such as food, becoming more and more expensive.

In these circumstances the Government adopted a series of measures, within the framework of a stabilization programme, in an attempt to stem the inflationary process.¹⁴ Among these were the freezing of the wages of rural and urban workers and efforts to contain public expenditure, which will be discussed below. As a result of these measures and the substantial drop in the rate of increase of the unit value of imports, the growth rate of consumer prices dropped from 18.6% in 1980 to 11.6% in 1981, while over the same period the rate of increase of wholesale prices dropped from 17% to 12.6% (see table 13).

Table 13

EL SALVADOR: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981
Variation from December to December						
Consumer price index ^a	5.2	14.9	14.6	14.8	18.6	11.6
Food	5.8	8.9	12.7	13.7	22.5	14.4
Wholesale price index ^b	15.3	6.9	4.7	22.9	17.1	12.6
Agricultural products ^c	90.8	-0.5	3.0	4.3	12.3	5.4
Manufactures	13.4	0.8	-1.0	20.4	6.3	15.4
Construction materials	7.8	15.4	7.6	17.8	4.7	25.0
Fuels and energy	7.3	23.0	3.5	67.0	23.7	19.6
Variation between annual average						
Consumer price index ^a	7.0	11.8	13.3	15.9	17.4	14.8
Food	7.0	8.7	10.7	14.8	19.7	17.6
Wholesale price index ^b	11.2	11.7	4.8	14.5	18.8	14.8
Agricultural products ^c	75.5	4.3	1.7	4.6	3.9	1.1
Manufactures	13.7	8.2	-1.6	9.6	17.1	13.3
Construction materials	8.6	16.7	0.5	13.2	20.2	12.5
Fuels and energy	-0.8	9.8	0.3	46.9	36.2	24.7

Source: ECLA, on the basis of official data.

^aCorresponds to the metropolitan area of San Salvador.

^bBase 1955 = 100. Excludes coffee.

^cIncludes coffee.

¹⁴The principal provisions referred to the regulation of some prices of basic articles, rent reductions (a measure which was revoked halfway through the year), freezing of wages and salaries, drug prices, etc., as well as the establishment of severe punishments for hoarding certain products.

Table 14
EL SALVADOR: EVOLUTION OF WAGES

	Indexes (1970 = 100)				Growth rates			
	1978	1979	1980	1981	1978	1979	1980	1981
Nominal minimum wages								
Agricultural workers	177.8	209.8	231.1	231.1	6.7	18.0	10.2	-
Harvesting								
Coffee	358.7	388.8	529.7	529.7	5.5	8.4	36.2	-
Sugar cane	212.5	228.0	425.8	444.4	-	7.3	86.8	4.4
Cotton	237.0	255.6	377.8	388.9	6.7	7.8	47.8	2.9
Seasonal agricultural industries								
Coffee processing	280.0	306.8	560.0	560.0	26.6	9.6	82.5	-
Sugar refining	240.0	257.6	320.0	320.0	8.9	7.3	24.2	-
Cotton processing	250.0	265.2	320.0	320.0	13.4	6.1	20.7	-
Other activities in San Salvador								
Industries and services	218.8	240.9	322.8	343.8	12.6	10.1	34.0	6.5
Commerce	205.7	231.4	295.1	314.3	10.5	12.5	27.5	6.5
Real minimum wages								
Agricultural workers	86.8	88.3	82.9	72.2	-5.9	1.7	-6.1	-12.9
Harvesting								
Coffee	175.1	163.7	190.0	165.6	-6.9	-6.5	16.1	-12.8
Sugar cane	103.7	96.0	152.7	138.9	-11.7	-7.4	59.1	-9.0
Cotton	115.7	107.6	135.5	121.6	-5.8	-7.0	25.9	-10.3
Seasonal agricultural industries								
Coffee processing	136.6	129.2	200.9	175.1	11.7	-5.4	55.5	-12.8
Sugar refining	117.1	108.5	114.8	100.0	-3.9	-7.3	5.8	-12.9
Cotton processing	122.0	111.7	114.8	100.0	0.2	-8.4	2.8	-12.9
Other activities in San Salvador								
Industries and services	106.8	101.4	115.8	107.5	-0.6	-5.1	14.2	-7.2
Commerce	100.4	97.4	105.8	98.2	-2.4	-3.0	8.6	-7.2

Source: ECLA, on the basis of official data.

As in 1980, the growth of food prices was more rapid than that of other goods, either considering variations between annual averages or those from December to December. This was partly a reflection of the insufficiency of supply and the problems of distribution, which contributed to the fact that many foods were the subject of speculation on various occasions during the year, with consequent rises in their unit value. Thus, for example, during the first half of the year there were increases of varying degrees in the wholesale prices of the basic cereals (beans, maize, millet and rice), despite the measures taken to maintain the guaranteed prices for agricultural producers.

(b) *Wages*

The financial difficulties of the central government, public enterprises and economic activities as a whole forced the authorities to take measures to freeze wages in both the public and private sectors. This policy was also applied to payments in kind (food) and minimum wages, which stayed at the nominal levels of 1980 and in some cases even those of 1979. Moreover, the Government decided to reduce the bonus it had annually awarded its civil servants.

Since despite the decline in the rate of inflation the latter still remained relatively high, these measures produced an appreciable drop in real wages in all sectors. In the case of minimum wages, the shrinkage of purchasing power was between 7% for workers in the metropolitan area and 13% in most agricultural activities (see table 14). This considerable difference was due to the fact that in 1980 almost no adjustments were made in rural wages, whereas some were made in respect of activities in the capital. Thus, although in 1981 all wages remained frozen, their average evolution during the year was different in the capital from that in the rural areas.

Because of this new decline, the total drop in the real minimum wage for agricultural workers came to 22% over the past four years, while during the same period the real minimum wage of industrial workers and workers in services in San Salvador remained almost unchanged, and that of employees in commerce decreased slightly. These differences probably helped in previous years to increase the flow of labour into the capital in search of employment, which in turn led to greater unemployment in the capital in 1981 than in rural areas.

Despite the considerable decline in real wages in 1981 there were no labour conflicts. It is possible that the critically unstable employment situation led the labour force, which is only weakly unionized, to try to keep their jobs rather than to press for increased wages.

5. Monetary and fiscal policy

(a) *Monetary policy*

Once again the worsening of the balance-of-payments problems (especially because of the reduction in net international reserves) and of the fiscal situation, together with the persistence of inflation, were factors which interfered with the proper evolution of the monetary variables and indirectly blocked the achievement of the objectives sought through the credit policy.

From the beginning, and with greater emphasis than in the previous year, the austerity policies regarding public expenditure, price stabilization and wage freezing were reflected in the monetary sphere in the cautious management of the means of payment. The money supply, which in 1980 had increased at a relatively similar rate to that of the growth of the gross domestic product at current prices, decreased in 1981 by nearly 2%, although the product increased by approximately 4%.

This decline in the means of payment was largely caused by the drastic contraction in the net international reserves and by the fairly rapid increase in the factors of absorption — such as quasi-money and long-term foreign borrowing, which rose more than 20%. The evolution of domestic credit was also fairly dynamic overall (see table 15).

Until 1978 a large part of the Government deficit was generally financed from domestic sources, because the market for the sale of securities was quite easy. It was not necessary, therefore, to rely to a great extent on the support of the banking system or the Central Bank. Accordingly, in

Table 15
EL SALVADOR: MONETARY BALANCE

	End-year balance (millions of colones)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Money	1 086	1 321	1 416	1 395	21.6	7.2	-1.5
Currency outside banks	500	743	719	703	48.6	-3.2	-2.2
Demand deposits	586	578	697	692	-1.4	20.6	-0.7
Factors of expansion	3 003	3 343	3 689	4 229	11.3	10.3	14.6
Foreign assets (net)	586	316	-175	-381	-46.1	...	-117.7
Domestic credit	2 417	3 027	3 864	4 610	25.2	27.7	19.3
Government (net)	-98	21	418	1 059			153.3
Official entities	295	518	1 269	1 112	75.6	145.0	-12.4
Private sector	2 220	2 488	2 177	2 439	12.1	-12.5	12.0
Factors of absorption	1 917	2 022	2 273	2 834	5.5	12.4	24.7
Quasi-money (savings and time deposits)	1 154	1 125	1 135	1 397	-2.5	0.9	23.1
Bonds	230	243	190	205	5.7	-21.8	7.9
Long-term foreign borrowing	394	482	725	914	22.3	50.4	26.1
Other items (net)	139	172	223	318	23.7	29.7	42.6

Source: ECLA, on the basis of official data supplied by the Central Reserve Bank of El Salvador.

^aPreliminary figures.

that year the public sector as a whole absorbed only 8% of total domestic credit, while private activity received the remaining 92%. This situation changed somewhat in 1979, when the proportion absorbed by the public sector reached 18% (especially credit to enterprises), and even more in 1980, when the proportion was 44%, although on that occasion the portion of this credit directed to the central government increased considerably. Finally, in 1981 the flow was so great that 80% of the increase in domestic credit was earmarked for the Government, compared with only 14% for private activities or public enterprises.

As a result of the foregoing, although credit expanded during the year by nearly 20%, the banking system was not able to comply fully with some of the objectives it had proposed to achieve even as far back as 1980, mainly because of the need to attend to the financial requirements of the State as a whole and to support a certain growth in public expenditure which —although small— partly made up for the slowdown in private activity. Thus, the credit which could be directed to the agricultural sector was relatively limited, and it was not possible to make full use of some of the lines of credit which, with the support of the Agency for International Development, could have helped in the reactivation of the economy, the consolidation of reforms and the improvement of marginal communities.

From the point of view of monetary policy, besides the caution in the management of the principal instruments and the allocation of credit mentioned above, there were major differences with respect to the previous year. Thus, neither the maximum legal reserves nor the rates of interest were changed. Perhaps one of the most important features was the effort made from the beginning of the year to stimulate the opening of accounts in foreign currency in the national banking system (at first only in dollars and later in other currencies), which did not, however, have as much success as expected.

(b) *Fiscal policy*

The situation of the public finances again became very serious, with the fiscal deficit rising by 17% and still being equivalent to approximately one-third of total government expenditures (see table 16). Although an attempt was made to correct this imbalance through the application of an austerity policy, this was not possible for various reasons.

Firstly, the persistence of the economic recession had an impact on tax revenues, which were lower than had been expected at the beginning of the fiscal year. Although tax collection increased slightly in nominal terms as a result of inflation, this increase could not compensate for the decline resulting from the recession, so that income fell in real terms. Second, the decline in production of export goods —which have a high impact on tax income— was accompanied by a drop in the international prices of these articles.

On the expenditure side, two factors militated against the achievement of the proposed objectives. Firstly, the Government covered the total external payments, which in the case of amortization were more than double those of the previous year. Although this managed to project an image of relative solvency to international creditors, the large sums involved limited the possibilities of reducing the deficit in line with the austerity policy.

Secondly, although real investment by the Government was cut drastically, it was not possible to do the same in other components of public expenditure, where there are a considerable number of obligations with few possibilities of "trimming". Such is the case, for example, with wages, which are difficult to reduce when an attempt is being made, as in the fiscal year analysed, to maintain levels of employment, as well as with other current expenditures needed for the acquisition of some essential goods and services.

In these circumstances, current income rose by only a little over 5%, after the very sharp decline suffered during 1980. Almost no measures were adopted during the year to help raise revenues substantially. The only tax that was raised was that on the sale of goods and services (called "stamp tax"), which went up from 1% to 2%, representing an increase of approximately 50 million colones in tax collection, which was completely offset by sizeable decreases in other taxes. Measures were also taken to revise the liquor tax, but they did not produce the anticipated effect.

GRENADA

1. Recent economic trends: Introduction and summary

The external sector necessarily plays a decisive role in the evolution of small island economies such as Grenada, where it accounts for well over half of the gross domestic product. Nevertheless, for reasons which will be analysed below, internal developments proved to be at least as decisive as external ones in shaping Grenada's development in 1981.

Hurricanes so damaged agricultural production in 1980 that the 1981 output showed a significant improvement over that year even though the recovery was partial and incomplete. Since agriculture accounts for almost one-third of Grenada's gross domestic product, this was a very positive development for the economy.

Equally decisive was the dynamic role played by public sector investment, which doubled between 1980 and 1981. Though this implied a sharp increase in foreign debt (see table 1) the funds were mainly directed to a project which can reasonably be expected to raise Grenada's future export earnings — the new airport for international jet traffic at Point Saline. In the short term, and certainly in 1981, this project and the associated capital expenditure caused construction to play a leading and dynamic role in the economy.

Notwithstanding the significance of these positive developments in agriculture and construction, they served at best to offset the sharp decline in Grenada's tourist earnings, which fell by 11% in nominal terms. Since tourism accounts for half of Grenada's exports and directly or indirectly affects one-third of its gross domestic product, this hamstrung overall economic growth in 1981.

2. Trends in economic activity

(a) *Growth of the main sectors*

Agriculture and tourism continue to be the mainstays of the Grenadian economy, each accounting for close to one-third of the gross domestic product (see table 2). In the case of tourism, the benefits are spread over various sectors of the economy, including virtually all of the hotels and restaurants sector and much of wholesale and retail trade, transport and communications. In 1981 there was a partial recovery of the agricultural sector after the damage which the 1980 hurricane did to the harvest, but this recovery in agriculture was more than offset by the significant decline in tourism. Consequently, only construction played a truly dynamic role, its expansion being largely determined by the Government's heavy investment in the Point Saline international airport.

(i) *Agriculture.* In 1980, Grenada's agricultural output was severely damaged by Hurricane Allen and heavy flooding throughout the second half of the year, and as a result virtually all crops registered sharp declines. Because of better climatic conditions agriculture experienced a partial recovery of output in 1981, yet for the most part, production was unable to reach 1979 levels (see table 3).

A notable and important exception to this was the case of nutmeg production, which increased 40% in 1981. Since nutmegs account for 20% of Grenada's agricultural exports and of the order of 5% of its GDP, this expansion was of substantial significance. Unfortunately, because of marketing difficulties this important gain in output could not be readily translated into higher foreign exchange earnings, since almost half of the 1981 nutmeg crop remained unsold and had to be stockpiled.

Table 1
GRENADA: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of current dollars)	35.9	41.1	50.2	57.9	...	...
Population (thousands of inhabitants)	105	106	107	108	109	110
Per capita gross domestic product (current dollars)	342	388	469	536	...	...
Annual growth rates						
B. Short-run economic indicators						
Gross domestic product	14.4	14.6	22.2	15.3	...	...
Per capita gross domestic product	13.6	13.5	20.9	14.3	...	...
Current value of exports of goods and services	21.0	37.0	21.4	29.4	-11.2	-1.1
Current value of imports of goods and services	25.6	40.3	26.7	26.8	15.4	6.8
Consumer price index						
December-December	...	...	...	...	21.8	...
Variation between annual averages	...	...	...	...	20.6	17.7
Money	...	12.0	32.1	17.6	...	...
Unemployment rate	...	...	...	...	27.9	...
Current income of government	45.2	21.6	39.9	19.1	10.8	2.5
Total expenditure of government	47.2	0.0	42.9	67.3	-1.2	40.7
Fiscal deficit/total expenditure of government ^b	29.0	15.8	20.3	44.0	37.2	54.3
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-4.0	-6.3	-11.3	-13.3	...	...
Balance on current account	-1.4	0.7	-8.3	2.7	...	...
Variation in international reserves	4.7	1.3	-1.2	6.0	...	...
External debt ^c	5.8	7.3	7.3	9.3	11.6	25.8
Exchange rate (EC dollars to US dollar)	...	...	...	...	...	2.7

Source: CEPAL, on the basis of official data.

^a Preliminary figures.

^b Percentage.

^c External public debt outstanding.

Clove production, though not yet back to 1979 levels, recovered sharply from 1980. The remaining export crops showed sluggish performance (maize and cocoa beans) or sharp declines (cinnamon, condiments, and most especially bananas). Indeed, banana production was almost 25% below its 1979 level: a decline attributed to moko and leaf spot diseases —the former appearing for the first time in 1978. Moko and leaf spot eradication programmes have been initiated, but production will continue to be affected until the diseases are contained and increased acreages can be put into production.

Altogether, the volume of agricultural export crops harvested increased by close to 9% in 1981. Because of the nutmeg marketing difficulties, however, the volume and value of agricultural exports actually declined (see table 4).

The output of crops mainly destined for domestic consumption was uneven at best, and on the whole unsatisfactory. While most fruits and basic root crops showed modest increases, important declines were registered in vegetables and limes, and sugar cane output fell by more than 20%.

The fact that the recovery of agricultural output in 1981 was only weak and partial was all the more serious in view of long-run trends. The Agricultural Census of 1981 showed that acreage under cultivation has fallen by one-third since 1961, from 21 000 hectares to 14 000 at present.

Table 2
GRENADA: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY AT FACTOR COST

	Millions of current East Caribbean dollars			Percentage breakdown	
	1979	1980	1981	1979	1981
Total gross domestic product	156.3	...	...	100.0	...
Goods	57.6	...	...	37.0	...
Agriculture, fisheries and forestry	49.8	...	...	31.9	...
Mining and quarrying	0.1	...	...	0.1	...
Manufacturing	4.3	...	...	2.8	...
Construction	3.5	...	...	2.2	...
Basic services	12.7	...	...	8.1	...
Electricity and water	2.5	...	...	1.8	...
Transport and communications	9.9	...	...	6.3	...
Other services	85.5	...	...	54.8	...
Wholesale and retail trade	23.5	...	...	15.0	...
Hotels and restaurants	4.5	...	...	2.9	...
Government services	34.6	...	...	22.1	...
Miscellaneous services	22.9	...	...	14.7	...

Source: Grenada, Ministry of Finance and Ministry of Planning. Last available breakdown of GDP.

Table 3
GRENADA: INDICATORS OF AGRICULTURAL PRODUCTION
(Metric tons)

	1978	1979	1980	1981	Growth rate			
					1978	1979	1980	1981
Production of main export crops								
Nutmegs	2 087	2 819	2 488	3 483	-15.0	35.1	-11.7	40.0
Mace	277	336	293	...	-18.2	23.9	-12.8	...
Cocoa beans	2 413	2 774	2 131	2 161	17.9	14.9	-23.2	1.4
Bananas	15 656	18 991	16 330	14 696	2.7	21.3	-14.0	-10.0
Production of domestic crops								
Sugar cane	15 726	13 452	9 773	7 686	-4.4	-14.5	-27.3	-21.4
Root crops								
Yams	496	506	459	482	-3.0	2.0	-9.3	5.0
Sweet potatoes	391	371	276	271	-3.5	-5.1	-25.6	-1.8
Tannias	280	271	276	284	2.6	-3.2	1.8	2.9
Dasheen and eddoes	166	164	283	289	4.0	-1.2	72.6	2.1
Pigeon peas	...	...	902	830	...	...	...	-8.0
Vegetables								
Carrots	42	34	32	26	-4.5	-19.0	-5.8	-18.7
Tomatoes	55	42	48	45	-27.7	-23.6	14.3	-6.3
Cabbages	57	39	...	...	1.8	-31.6	...	...
Fruit								
Oranges	961	1 000	936	983	7.9	4.1	-6.4	5.0
Mangoes	1 445	1 517	1 805	1 841	-0.7	4.9	19.0	2.0
Grapefruits	2 009	2 109	2 093	2 197	29.2	4.9	-0.7	5.0
Limes	499	488	496	422	12.1	-2.2	1.6	-14.9
Avocado	1 240	1 236	1 356	1 423	25.4	-0.3	9.7	5.0

Source: Grenada, Central Statistical Office.

Moreover, the little land available is subdivided into over 8 000 tiny plots, so that most farms are under 2 hectares, and even the country's largest 80 farms average no more than 70 hectares. Finally, and possibly most alarming, is the fact that the average age of farmers is well over 50 years. This implies that the young are refusing to look to agricultural activity for work—a fact quite consistent with farmers' complaints of not finding workers, despite an unemployment rate of 27% and almost double that among youth. Given Grenada's high man/land ratios (a 38 000 man labour force with 14-21 000 hectares of cultivable land), it is improbable that agriculture will be able to play a leading role in output or employment in the future. Nevertheless it must hold its own, for it still accounts for one-third of the GDP, and if agriculture were to stagnate or deteriorate, it would undoubtedly leave a shortfall too large for the possible growth sectors (tourism and the incipient exports of manufactures) to absorb alone.

Consequently, if agriculture is at least to hold its own, farming must again be made attractive to the young as a profession and not merely a means of subsistence. Agricultural exports must be promoted: farms need to be consolidated to nearer family-size levels; credit should be extended; agricultural infrastructure must be provided; and it is necessary for the security of crops to be assured. A number of agricultural sector projects, covering agricultural credit, feeder roads, a farm management training centre and a banana development programme, have been included in the Public Sector Investment Programme. Moreover, an agricultural co-operative programme is underway which is especially addressed to attracting youth and experimenting with a different model of development. Twelve such co-operatives were begun in 1981.

Two other initiatives worth noting in connexion with primary sector activity are the National Fisheries Corporation and the Forestry Development Corporation established in 1981 to exploit the extensive fish and timber resources available in Grenada. These initiatives are still too new to have had much of an economic impact or admit of an evaluation, however.

(ii) *Manufacturing.* Manufacturing contributes only about 3% to the GDP in Grenada. It is largely (and until recently exclusively) of an agro-industrial or food processing nature, aimed at satisfying domestic consumption. Since the national market is small, the scope for manufacturing growth is very limited, production being conditioned by fluctuations in the agricultural outputs

Table 4
GRENADA: MERCHANDISE EXPORTS

	Thousands of East Caribbean dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1974	1981	1979	1980	1981 ^a
Total merchandise exports	56 016	44 522	49 761	100.0	100.0	26.2	-18.7	9.3
Main traditional exports	52 264	39 722	38 830	91.4	78.0	26.3	-24.0	2.2
Nutmegs	12 413	8 543	8 126	34.2	16.3	15.6	-31.2	-4.9
Mace	2 313	1 845	1 687	8.0	3.4	32.8	-20.2	-8.6
Cocoa	27 078	18 239	19 021	30.7	38.2	38.3	32.6	4.3
Bananas	10 460	11 095	9 996	18.6	20.1	12.3	6.1	-9.9
Main non-traditional exports	1 356	3 164	6 159	3.9	12.4	-21.5	133.3	94.7
Clothing	991	2 373	5 511	2.3	11.1	-2.1	139.4	132.2
Furniture	365	791	648	1.6	1.3	-49.0	116.7	-18.1
Other exports	828	313	699	1.4	1.4	39.2	-62.2	123.3
Claves	751	199	594	1.2	1.2	44.1	-73.5	198.5
Cinnamon	37	75	69	0.1	0.1	-16.0	102.7	-5.3
Sauces and condiments	40	39	36	0.1	0.1	33.0	-2.5	-7.7

Source: Grenada, Central Statistical Office.

^a Preliminary figures.

which serve as inputs (the case of sugar and rum) and the largely vegetative growth of local demand. In recent years, Grenada has begun developing export-oriented industries which may permit this sector to play a more dynamic role.

At all events, at present the largest role by far is still played by manufactures aimed at the domestic market. Because of the most important of these (sugar and beer) registered declines in output, overall manufacturing output is estimated to have declined 2%, notwithstanding the continued substantial increase in export manufactures.

Preliminary data indicate that sugar production declined by 71% during the year (see table 5) and while the final figures probably will not show a decline of this magnitude, especially bearing in mind the 21% reduction in sugar cane output, the decline of over 50% in sugar cane output since 1978 clearly bodes ill for the sugar industry. Rum production increased by 6% in 1981, but rather than indicating the success of 1981 production, this merely reflected the fact that the factory was off-stream for the final two months of 1980. The 1981 figure thus represents a decrease of 2.5% over 1979, the last year of full production.

Flour production, which came fully on-stream in 1980, increased by 59% in 1981, when 18% of flour output was exported to CARICOM countries. Figures for the production of coconut meal, edible oils and laundry soap are only available for the period January-July 1981. Comparison with the corresponding seven-month period the year before shows an increase in edible oil production of 51% but a decrease in coconut meal production of 13%.

The production of laundry soap increased enormously during 1981, as the supply of raw materials was finally assured.

The data available for furniture and garment production relate to the value of exports. Furniture exports were not able to sustain the level recorded in 1980, and declined by 25%, but the clothing industry which is far more important in terms of value exported, continued to record impressive rates of growth in export earnings, the volume of output increasing by over 100%.

Table 5

GRENADA: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Production of some important manufactures							
Sugar ^b	592	524	494	143	-11.5	-5.7	-71.0
Flour ^b	...	...	3 107	4 927	...	...	58.6
Rum ^c	337	359	330	350	6.5	-8.0	6.1
Beer ^c	1 447	1 674	1 393	1 203	15.6	-16.8	-13.6
Malt ^c	187	485	544	618	159.3	12.2	13.6
Edible oil ^c	290	308	240	198	6.2	-22.0	...
Coconut meal ^b	153	296	118	62 ^d	93.5	-60.0	...
Laundry soap ^b	26	27	23	57 ^d	3.8	-14.8	...
Clothing ^{e,f}	1 422	1 243	2 606	5 511	-12.6	109.7	111.5
Furniture ^{e,f}	1 006	458	869	648	-54.4	89.7	-25.4

Source: Grenada, Central Statistical Office.

^a Preliminary data.

^b Tons.

^c Thousands of litres.

^d January-July.

^e Thousands of East Caribbean dollars of 1981 purchasing power, deflated by the US wholesale price index for consumer goods.

^f Data relate to exports

The major thrust of current government policy in manufacturing is the development and expansion of an agro-industry to process fruits and spices for local and CARICOM markets. The project, which is still in its early stages, currently absorbs produce that is surplus and would normally go to waste. If it is to fully meet the existing market potential, the supply of raw materials and other inputs, such as containers, will need to be secured by longer-term contracts, and the sporadic operation of the factory due to electricity cuts will need to be corrected.

(iii) *Construction*. Once again in 1981 construction was the leading sector of the economy, growing by a further 14.5% after the spectacular increase of 208% in 1980. This rapid growth in the two years in question was due mainly to the initiation of the Point Saline International Airport project. Nearly EC\$ 39¹ million was spent on the airport's construction in 1981, EC\$ 27 million of which was in foreign grants and nearly EC\$ 11 million in loans. This project looms large in the Grenadian context, accounting for half of the country's investment and over 10% of gross domestic expenditure. It is thus the single most important dynamic factor in the Grenadian economy today, and as such is a major reason for the increased role of government in the economy.

By comparison, other construction projects were clearly dwarfed in importance. A total of 32 housing units were completed in 1981, and even the housing repair programme, which covered 973 households, absorbed less than EC\$ 800 000. Construction and repair work of public institutions in education, health and agriculture amounted to less than EC\$ 350 000. Even previously important public works projects are small by comparison: all road and bridge repair work, together with Grenadian feeder road construction, totalled about EC\$ 8 million.

(iv) *Tourism*. It is estimated that close to one-third of Grenada's GDP depends on tourism in one way or another. This is true not only of hotels and restaurants, but also of much commerce, transport, services and even agriculture. A fact which is just as important and of even more direct significance is that fully half of Grenada's foreign exchange is derived from tourism.

While considerable efforts are being made to prepare for tourism —principally, but not exclusively, through the construction of the international airport able to handle wide-bodied jets and so to exploit charter flight tourism— the fact remains that Grenada experienced an 11% decline in tourist earnings in 1981 (see table 6). Since these earnings are expressed in current EC dollars, this implies a much sharper decline in the real volume of activity, of the order of at least 20%. Given the importance of tourism to the economy, this was a very significant brake on Grenada's growth.

Table 6

GRENADA: SELECTED TOURIST INDICATORS

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Total visitors ^b	148.6	171.0	175.0	93.7	15.1	2.3	-46.5
Stopover visitors	32.3	32.3	29.4	25.1	-0.3	-8.8	-14.8
Cruise-ship visitors	116.3	138.7	145.6	68.6	19.2	5.0	-53.0
Average length of stay of stopover visitors (days)	18.7	19.7	18.0	18.0	5.3	-8.6	-
Number of cruise-ship calls	188	200	236	131	6.4	18.0	-44.5
Number of yacht calls	2 079	926	1 005	473 ^c	55.5	8.5	-39.9 ^c
Hotel and guest house beds	1 500	1 550	1 500	1 128	-	-	-24.8
Estimates visitors expenditures ^d	39.4	53.6	52.4	46.8	35.9	-2.2	-10.7

Source: Grenada, Central Statistical Office, and Grenada Tourism Department.

^aPreliminary figures.

^bThousands.

^cJanuary-September.

^dMillions of East Caribbean dollars.

¹The exchange rate of the currency used in Grenada (the Eastern Caribbean dollar) is EC\$2.7 = US\$ 1.0.

As table 6 indicates, there was quite a sharp decline in the number of tourists: almost 15% among stop-over visitors (who account for 90% of tourist expenditures), and over 50% among cruise ship visitors. The number of visitors from the United States, Germany and the United Kingdom declined by 24%, 21% and 14% respectively —probably a reflection of the sharp fall in the number of cruise ships calling in at Grenada. On the other hand, guest arrivals from CARICOM increased by 11% and from Venezuela by 5%, so that Caribbean tourists now comprise one-third of all tourists.

It is true that tourism throughout the Caribbean has turned in a weak performance, due mainly to the recession in the major industrial countries: for example, visitor arrivals went down in 1981 by close to 6% in Barbados, and by over 4% in the Bahamas. Nevertheless, other factors are also involved in Grenada, for not only was Grenada's decline in tourists much sharper in 1981 than elsewhere in the Caribbean, but it came on top of a similar decline in the previous year (-2% in nominal terms and of the order of -15% in real terms), whereas in 1980 tourism had grown in Barbados and the Bahamas.

Among these adverse factors was a fire at the Holiday Inn which reduced the availability of first class hotel rooms by approximately 50% and total room capacity by 25%. Unfavourable reporting of political developments is also thought to have reduced the influx of tourists, especially those from the United States. Finally, the virtual absence of organized marketing and tourist promotion has further militated against full exploitation of the industry's potential. With the new airport scheduled for completion in 1983 and the Government's increasing awareness of the importance of the industry and the need for effective tourism promotion, however, the possibility of tourism playing a dynamic role in the economy looks promising.

(b) *Employment and unemployment*

A labour force survey conducted in October 1980² showed 38 000 persons (34% of the population) to be economically active. Of those fully employed, 35% worked for the government or State-owned enterprises, while somewhat over 10 000 persons (27%) were unemployed. This problem was especially acute among the young, since 63% of the total number of unemployed were in the 15-24 age group, which thus had a rate of unemployment of the order of 50%.

In view of the sharp increase in public investment in 1981, the situation may be expected to have improved. Nevertheless, such a high rate of unemployment reflects both the scanty opportunities open in agriculture, given its low land/man ratio, and the natural aspirations of the young to work in activities that provide more than mere subsistence. This underlines the need to seek dynamic sectors of economic activity, all of which must necessarily be outward looking, such as agricultural exports, tourism or exports of manufactures.

3. The external sector

As is natural in an economy the size of Grenada, the external sector plays a decisive role. Exports constitute over 50% of the gross domestic product, with half of export income consisting of tourist earnings, while imports because of the influx of capital donations and loans during the year, have risen to a figure equivalent to over 80% of the gross domestic product.

(i) *Exports.* The value of merchandise exports increased slightly over 9% in 1981 (see table 4), yet still remained well below 1979 levels.

One reason was the important decline in the prices of two of Grenada's key exports, nutmegs and cocoa (see table 7). Another was the aforementioned difficulties experienced in the marketing of nutmegs, the result of which was that while production grew 40%, the volume actually exported declined by 16%. Equally important, however, is the fact that the recovery of the agricultural sector was weak, so that the volume of exports did not increase markedly. Only the manufacture of clothing, a non-traditional export, showed vigorous growth.

²Grenada, *Employment, Unemployment and Householding Survey, 1980.*

The EEC continued to take most of Grenada's merchandise exports (72%), and the United Kingdom alone accounted for 36%. These figures were, however, less than the percentages for 1980 (77% and 44%, respectively). On the other hand, the CARICOM share of Grenadian exports increased to 18% in 1981, compared with 10% in 1980. The Trinidadian contribution to this increase was most significant, moving from less than 8% of total exports in 1980 to almost 15% in 1981. Thus in 1981 it became the third largest market for Grenada's exports after the United Kingdom and the Netherlands, and moreover it purchased a highly diversified package of products. Most rapid growth was registered in non-traditional food and vegetable exports and clothing. In contrast, exports to North America fell from 6% to 4% of total export earnings.

As indicated earlier, Grenada's tourist earnings in 1981 declined sharply, by 11%, so that it is estimated that the total value of Grenada's exports of goods and services actually fell in 1981 (see table 8). The decline is not significant in nominal terms, amounting to only 1%, but when the inflation which has affected the value of the US dollar (notwithstanding its relative appreciation in international markets) is taken into account, this would point to a decline of 5-10% in the real purchasing power of Grenada's exports.

(ii) *Imports.* The value of imports increased by 7% in 1981 (see table 8). This was less than the 1980 growth rate (15%), but rather than reflecting any change in the volume of imports it was an indication of the reduced world inflation between the years 1980 and 1981. Preliminary estimates indicate that CARICOM still provides about 30% of all the country's imports, with petroleum accounting for nearly half of this amount, while the EEC and North America each provide a further 25%. Food accounts for about 36% of all imports, capital goods 16%, petroleum 16%, and airport-related imports 9%.

(iii) *Invisibles and the capital account.* Official balance of payments statistics are not prepared by Grenada. Some of the elements of this balance can, however, be identified and are presented in table 8. No attempt is made to arrive at a formal balance, however, since not all of the components are known.

From the available data it is clear that the trade balance was not only negative but increasingly so. This trade deficit was partly financed by invisibles, comprising remittances by Grenadians from abroad, which are estimated not to exceed EC\$ 6 million for 1981. Aid inflows for 1981 slightly exceeded EC\$ 35 million, while borrowing from abroad came to almost EC\$ 33 million. As a result of this external borrowing, the external debt increased 90% in 1981, to a level of the order of 25 million, which is over 3 times the amount owed in 1978, but still well below the country's export earnings (see table 9).

Table 7
GRENADA: PRICES OF SELECTED EXPORTS
(East Caribbean dollar per lb)

	1978	1979	1980	1981	Growth rates		
					1979	1980	1981
Bananas	0.29	0.33	0.40	0.41	13.8	21.2	2.5
Nutmegs	2.46	2.44	2.54	2.26	-0.8	4.1	-11.0
Mace	2.96	2.93	3.32	3.62	-1.0	13.3	9.0
Cocoa	3.72	5.14	4.38	3.17	38.0	-14.7	-27.6
Claves	9.61	9.52	6.85 ^a	11.76	-0.9	...	23.5 ^b

Source: Grenada, Central Statistical Office.

^aFigure of EC\$ 6.85 includes cloves and stems; no figures available for cloves alone.

^bIncrease over 1979 price.

Table 8

GRENADA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	24.1	24.3	28.3	34.0	44.0	...	...
Goods FOB	12.3	13.0	14.3	17.0	21.2	17.0	18.7
Services ^b	11.8	11.3	14.0	17.0	22.8	...	...
Transport and insurance	-	-	-	-	-	...	...
Travel	8.9	7.9	11.0	14.0	19.8	19.4	17.3
Imports of goods and services	27.2	28.3	34.5	45.2	57.3	...	...
Goods FOB	21.9	22.9	28.5	32.2	43.6	50.3	53.7
Service ^b	5.3	5.4	6.0	13.0	13.7	...	...
Transport and insurance	2.3	2.4	3.0	5.0	6.8	...	...
Travel	1.0	1.0	1.0	4.0	3.0	...	...
Trade balance	-3.1	-4.0	-6.3	-11.3	-13.3	...	...
Profits and interest	-0.2	-0.2	1.0	-1.0	-0.5	...	...
Profits	...	...	...	-	...	...	...
Interest	...	...	1.0	-1.0	...	...	...
Unrequited private transfer payments	3.0	2.9	6.0	4.0	16.0	...	...
Balance on current account	-0.3	-1.4	0.7	-8.3	2.7	...	...
Unrequited official transfer payments	0.8	-0.5	0.8	1.0	...	...	...
Long-term capital	-	-	1.6	0.5	...	...	...
Direct investment	...	...	-0.2	-0.2	...	...	...
Portfolio investment	...	...	-	-	...	...	...
Other long-term capital	-	-	1.8	0.8	...	...	...
Official sector ^{c,d}	...	...	1.8	0.8	...	...	...
Loans received	...	...	1.9	1.5	...	...	...
Amortization payments	...	...	-0.2	-0.7	...	...	...
Commercial banks ^d	...	...	-	-	...	...	...
Loans received	...	...	...	...	...	...	...
Amortization payments	...	...	...	...	...	...	...
Other sectors ^{d,e}	...	...	-	-	...	...	...
Loans received	...	...	...	...	...	...	...
Amortizations payments	...	...	...	...	...	...	...
Basic balance	...	...	3.1	-6.7	...	...	...
Short-term capital	-	-	0.4	-	...	...	...
Official sector	...	...	-	0.2	...	...	...
Commercial banks	...	...	0.4	-0.2	...	...	...
Other sectors	...	...	-	-	...	...	...
Errors and omissions (net)	-0.2	-2.8	-3.2	6.4	...	...	...
Counterpart items ^f	...	...	0.9	-0.9	...	...	...
Global balance	-0.3	4.7	1.3	-1.2	...	...	...
Total variation in reserves (minus sign indicates an increase)	0.3	-4.7	-1.3	1.2	-6.0	...	...
Monetary gold	-	-	-	-	-	...	...
Special Drawing Rights	-0.1	-	0.1	-	-	...	...
IMF reserve position	-	-	-	-	-	...	...
Foreign exchange assets	0.6	-5.1	-1.3	1.2	-5.7	...	...
Other assets	-	-	-	-	-	...	...
Use made of IMF credit	1.0	0.5	-	-	-0.3	-0.9	...

Source: 1975-1979: International Monetary Fund, *Balance of Payments Yearbook* (magnetic tape, March 1981); 1980, 1981: CEPAL, on the basis of official data.

^a Preliminary figures.

^b Services also include other official and private transactions.

^c Including general government and Central Bank.

^d In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^e Including private and State non-bank enterprises.

^f Includes counterpart items in respect of monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

4. Prices and wages

Inflation declined somewhat in 1981 when it amounted to 17.7%, compared with 20.6% in 1980. Given the fixed exchange rate and the openness of the economy, inflation is normally determined mainly by world inflation. However, in recent years and certainly in 1981, internal inflation exceeded imported inflation by a considerable margin. This was partly due to the incomplete recovery of agricultural output, on the supply side, and to the even stronger influx of foreign capital for airport construction, on the demand side. The sharpest increases in prices were registered by furniture and appliances 56%, and clothing and footwear 27% (see table 10). Food, which is the main item in the price index, with a weight of 59%, registered an increase of almost 20%.

A number of wage agreements were concluded in 1981. Estimates suggest that central government employees achieved an average wage increase of 17%, with teachers' income increasing by 14%-24.5%, nurses by 17%-25% and civil servants' by 12%-17%. Port workers gained 15% and utility workers between 5% and 20%.

Table 9

GRENADA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981 ^a
Total external indebtedness ^b	5.60	5.80	7.30	7.30	9.30	13.6	25.0
Servicing of external debt	0.58	1.19	0.46	1.01	0.68	...	...
Amortization payments	0.38	0.99	0.22	0.72	0.28	...	...
Interest payments	0.20	0.20	0.24	0.29	0.40	...	...
Servicing of external debt, as a percentage of total exports	2.70	5.60	1.60	2.90	1.70	...	...
Average interest rate	3.80	3.70	4.10	4.10	5.50	...	...

Source: World Bank.

^aPreliminary figures.

^bExternal public debt outstanding.

Table 10

GRENADA: EVOLUTION OF DOMESTIC PRICES

	Percentage breakdown	Annual average growth rate	
		1980	1981
Total	100.0	20.6	17.7
Food	59.0	18.9	19.5
Alcohol and tobacco	2.5	20.6	15.3
Clothing and footwear	8.0	21.1	26.9
Fuel and light	6.0	43.6	3.9
Housing	6.5	9.8	3.3
Furniture and appliances	3.0	5.2	55.6
Household supplies	3.5	28.7	6.4
Transport	4.0	37.0	12.7
Miscellaneous	7.5	25.6	11.8

Source: Grenada, Central Statistical Office.

In the private sector, agricultural workers gained 11.5%, manufacturing workers 12.5%-17.5%, motor repairers 15%, and banking employees 15%-20%, while the increase in commerce ranged from 7.5%-32%. Thus it is likely that the real wages of most workers lost ground to inflation during 1981.

5. Monetary and fiscal policy

(a) *Monetary policy.*

Grenada, as a member of the East Caribbean Currency Authority, has no central bank of its own. There are four major foreign commercial banks in operation and a locally owned National Commercial Bank (NCB), which is the second largest in the country.

The money supply increased 11% in 1981 (see table 11), the central government's fiscal situation being the principal source of that expansion. The evolution of commercial bank credit was, however, negative since it declined 2% in 1981 (see table 12). Though credit to agriculture,

Table 11
GRENADA: MONETARY BALANCE
(Millions of East Caribbean dollars)

	Balance at end of:				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^b
Money	37	46	49	49	24.3	6.5	11.4
Currency outside banks	22	29	33	34	31.8	13.8	17.2
Demand deposit	15	17	16	15	13.3	-5.9	-
Factors of expansion	114	115	126	136	1.0	9.6	10.6
Foreign assets (net)	21	25	28	25	19.0	12.0	8.7
Domestic credit	93	90	98	111	-3.2	8.9	11.0
Government (net)	33	24	24	33	-27.3	-	43.5
Private sector	60	64	72	76	6.7	12.5	4.1
Factors of absorption	77	69	77	87	-10.3	11.6	10.1
Quasi-money (savings and time deposits)	71	78	83	89	9.9	6.4	7.2
Other items (net)	6	-9	-6	-2	...	...	...

Source: International Monetary Fund, *International Financial Statistics*, May 1982.

^aSeptember.

^bSeptember 1981 with respect to September 1980.

Table 12
GRENADA: SECTORIAL DISTRIBUTION OF COMMERCIAL BANK CREDIT

	Millions of current East Caribbean dollars			Percentage Breakdown			Growth rates		
	1979	1980	1981	1976	1980	1981	1979	1980	1981
Total	71.4	82.7	81.0	100.0	100.0	100.0	9.5	15.7	-2.0
Agriculture	2.4	2.9	4.9	7.0	2.5	6.1	-62.4	20.0	71.3
Manufacturing	3.9	6.5	7.3	3.3	8.0	9.0	240.9	68.7	11.8
Distributive trade	22.5	22.1	19.8	28.3	28.4	24.5	22.2	-1.9	-10.4
Tourism	4.6	4.7	6.1	8.0	7.2	7.6	10.4	1.9	31.7
Transportation	4.3	5.1	7.1	3.1	6.4	8.8	55.0	18.1	39.6
Public utilities	0.5	1.6	1.5	2.5	1.7	1.8	-50.0	194.5	-4.7
Building and construction	3.3	4.9	6.1	6.4	6.1	7.6	-20.7	50.4	24.4
Personal loans	17.3	17.7	12.6	16.8	23.4	15.6	27.5	2.0	-28.6
Other advances	12.6	17.2	15.5	24.5	16.3	19.1	-9.0	36.8	-10.1

Source: Grenada, Ministry of Finance.

tourism, construction and transportation showed strong growth, the shares of agriculture and tourism in total credit were still below 1976 levels, and were well below their contributions to GDP.

(b) *Fiscal policy.*

In 1981, if one excludes grants, Grenada accumulated a deficit on its current account budget in excess of EC\$ 6 million, or 10% of total revenue (see table 13). The current revenue of EC\$ 61 million, although 2.5% higher than the revenue collected in 1980, fell well below the projected figure of EC\$ 70 million. Current expenditure, which had been budgeted at EC\$ 70 million for the year, was reduced to a realized figure of EC\$ 66.7 million, but even so it was 7.9% higher than in 1980.

Revenue from import duties declined by 13% and reflected the general reduction in economic activity, particularly in tourism. Actual receipts were 25% lower than originally budgeted for. Income tax revenue increased by 2.5%, well below the rate of inflation. Consumption duties, while up 48% over 1980, nevertheless fell 10% short of the original budget estimates. Export duties, on the other hand, which had declined by 40% in 1980, rose 9.7% in 1981 and were 35% higher than targeted.

Whereas current expenditure as a whole increased by 8%, the wages and salaries account increased by less than 3%, implying important reductions in real wages. Other current expenditures increased by 14%. Actual expenditure was 4% lower than the budget estimate.

The 1981 budget made provision for capital expenditures of EC\$ 90 million, an increase of 277% with respect to 1980. The amount actually spent was EC\$ 66 million, up 103% over 1980.

The reasons given for this shortfall include the late receipt of some of the project funds and bad weather, which had the effect of putting some projects behind schedule. It may be noted that expenditure on the new Point Saline International Airport project accounted for nearly 59% of total capital expenditure for the year.

In the past, grants in aid covered the bulk of the difference between total expenditure and revenue. Once again in 1981 these grants were of the order of EC\$ 35 million, but this time they covered only half the deficit. The other part of the sizeable fiscal deficit for 1981 was covered by loans from Libya and the IMF. Thus the level of foreign debt virtually doubled between 1980 and 1981.

Table 13
GRENADA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of East Caribbean dollars			Growth rates		
	1979	1980	1981	1979	1980	1981
1. Current income	53.4	59.1	60.6	19.1	10.8	2.5
Tax revenue	31.8	34.4	34.8	16.4	8.3	1.0
Direct	10.7	15.6	16.0	20.4	45.6	2.5
Indirect	21.1	18.8	18.8	14.5	-10.7	-0.2
On foreign trade	18.4	16.6	15.5	17.7	-9.9	-6.7
Other current revenue	21.6	24.7	25.8	23.4	14.6	4.6
2. Current expenditure	53.9	61.8	66.7	10.4	12.8	7.9
Wages and salaries	31.8	33.2	34.0	0.3	4.4	2.4
Other	22.1	28.6	32.7	29.4	29.4	14.3
3. Saving on current account (1 - 2)	-0.5	-2.7	-6.1			
4. Capital expenditure	41.5	32.4	65.8	965.1	-21.9	103.2
5. Total expenditure (2 + 4)	95.4	94.2	132.5	81.0	-1.2	40.7
6. Fiscal deficit or surplus (1 - 5)	-42.0	-35.1	-71.9			
7. Aid grants	35.5	33.2	35.3			

Source: Grenada, Ministry of Finance.

GUATEMALA

1. Recent economic trends: Introduction and summary

In 1981 the Guatemalan economy had to face up to numerous adverse factors, including a deterioration in the terms of trade, which were reflected in the virtual stagnation of the gross domestic product, whose growth rate amounted to only 1%, and a drop in the per capita gross domestic product of nearly 2%. Even in order to maintain this minimal level of economic activity the country had to draw on its international currency reserves, which went down markedly (see table 1 and figure 1).

The elements which contributed to this discouraging picture were many and varied and also mutually intensified each other. Some are already of a long-standing nature —1981 was the fifth year running in which there was a downward trend in the economic growth rate— while others are of temporary, short-term character, and some are of domestic origin while others are external.

Among the most outstanding adverse phenomena was, first of all, the evolution of the world economy, which was manifested in a drop in external demand —and consequently in unit prices— for most of the products which Guatemala exports,¹ this situation being made worse by the rise in the cost of imports and especially the movements of interest rates, which widened the gap between conditions on Guatemalan capital markets and those prevailing at the world level.

Secondly, there was a sustained and significant contraction in private capital formation for the third year running because of the lack of investment opportunities in an increasingly depressed market, the running down of the construction activity connected with the process of repair of the damage caused by the February 1976 earthquake, and above all, the uncertainty generated by phenomena of a non-economic nature which will be referred to later. Thirdly, the economic recession in the other Central American countries —which was generally even more severe than that affecting Guatemala— adversely affected the level of activity of the Guatemalan manufacturing sector because of the high level of economic interdependence which still prevails among the countries of the subregion in connexion with the process of Central American integration.

Finally, the tensions of a social and political nature and the climate of generalized violence which accompanied them affected the economy in various ways which went beyond a mere contraction in private investment.

Faced with this mass of obstacles, the Government adopted an expansive policy in public expenditure, especially that connected with capital formation. There can be no doubt that this policy helped to reduce the adverse consequences which the above phenomena would otherwise have had on the level of economic activity and employment, especially in certain sectors such as construction. This was only achieved, however, at the cost of growing financial imbalances in both the public and external sectors. With regard to the former, the sluggish growth of the collection of fiscal income due to the depressed level of the economy, together with the reduction decree during 1981 in the tax base of some taxes levied on exports, meant that the higher expenditure had to be financed through ever-increasing levels of indebtedness. The central government deficit thus rose to an unprecedented level equivalent to 6.5% of the gross domestic product, and 85% of this deficit was financed through domestic credit granted by the Central Bank: a situation which, as well as

¹This problem was made even more serious by the fact that, under the terms of the International Coffee Agreement, Guatemala had to accumulate considerable stocks of exportable coffee.

affecting the capacity of the financial intermediation system to expand credit to the private sector, also became the principal factor of monetary expansion. The direct effects (the imported component of public expenditure) and the indirect effects of this expansion were manifested in the increased value of imports of goods, which rose in nominal terms by approximately 7% compared with the year before.

This latter phenomenon, together with the contraction in external demand already referred to, largely explains the unprecedented deficit on the balance-of-payments current account, which came to a little over US\$ 590 million, or 6.8% of the gross domestic product. A noteworthy feature in connexion with the capital account was the relatively modest use made by the public sector of external indebtedness (except for the IMF compensatory financing referred to later). Guatemala experienced growing difficulty in gaining access to private capital markets, both because of the risks which some sources of finance perceive in Central America at the present time and because of

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of dollars at 1970 prices)	3 085	3 313	3 571	3 750	3 926	4 064	4 104
Population (millions of inhabitants)	6.2	6.4	6.6	6.8	7.0	7.3	7.5
Per capita gross domestic product (dollars at 1970 prices)	494	514	538	548	557	560	549
Growth rates							
B. Short-run economic indicators							
Gross domestic product at market prices	2.0	7.4	7.8	5.0	4.7	3.5	1.0
Per capita gross domestic product	-1.1	4.1	4.6	1.9	1.6	0.4	-1.9
Real gross domestic income ^b	2.0	8.4	11.1	4.4	3.1	1.5	0.1
Terms of trade (goods and services)	-0.5	7.9	21.7	-4.5	-10.5	-11.4	-12.2
Current value of exports of goods and services	11.5	25.9	35.5	-2.8	13.5	19.3	-15.0
Current value of imports of goods and services	5.9	40.9	18.3	15.1	8.5	9.9	5.1
Consumer prices							
December - December	0.8	18.9	7.4	9.1	13.7	9.1	8.8
Variation between annual average	13.1	10.7	12.6	7.9	11.5	10.7	11.4
Money	16.1	38.6	18.6	8.9	10.9	2.5	4.1
Nominal wages and salaries ^c	5.6	4.5	-4.2	13.2	13.5	10.0	38.8
Current income of government	18.0	23.3	45.3	11.7	11.0	11.8	-0.2
Total expenditure of government	12.1	55.4	9.0	15.9	15.3	21.0	17.4
Fiscal deficit/total expenditure of government	16.4	35.6	14.2	17.3	27.5	40.5	49.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-77	-227	-99	-354	-320	-214	-577
Balance on current account	-65	-79	-37	-271	-209	-164	-593
Variation in net international reserves	104	217	178	70	-23	-255	-406
External debt ^d	201	233	296	391	514	609	800

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cCalculated on the basis of social security contributions.

^dPercentage.

^ePublic external debt plus State-guaranteed private debt (disbursed).

the differentials between the active and passive interest rates prevailing in Guatemala and those registered in the main financial centres. Moreover, the net flight of private capital observed in previous years continued in 1981, and all this led to a loss of gross reserves of the order of US\$ 295 million. Thus, Guatemala ended 1981 with gross international reserves which were barely sufficient to finance 10 weeks of imports at the levels of that year, and with an actual deficit in its net reserves.

Against the background of general slackening of the economy described above, it may be assumed—and this is confirmed by the few available indicators—that the levels of open and concealed unemployment increased significantly, although it would appear that the total amount paid out in salaries and wages increased as a result of the considerable adjustments in minimum wages granted in 1980, whose main effect was felt as from 1981.² This may explain why private consumption grew slightly faster than the gross domestic product.

Apart from public expenditure, the only dynamic element in the economic picture in 1981 was the increased supply of food—especially basic grains—although this took place at the expense of the supply of other exportable agricultural products because land traditionally prepared for cotton growing was diverted to the growing of cereals. This, together with the general sluggishness of the economy, helps to explain also the modest rise in prices (the consumer price index increased by around 11% in terms of annual averages), at least in comparison with the average levels of inflation in the industrialized countries.

All the above phenomena combined to subject the financial intermediation system to heavy pressure. The banks in the system suffered during most of the year from a situation of acute shortage of liquidity, due to the downward trend of deposits and an increase in the demand for credit associated with the restrictions on the availability of external financing. This situation was aggravated by the domestic credit needs of the public sector—to which the monetary authorities gave priority—and the difficulties experienced by the banks in recovering their fitting-out loans, especially those granted to coffee growers.

In response to these difficulties, the Guatemalan authorities adopted some measures of adjustment towards the end of the year in line with a programme agreed with the International Monetary Fund in October 1981. Recourse was had to the compensatory financing facility for fluctuations in export income (US\$ 88 million) and the first regular financing tranche (US\$ 22 million). Among the main adjustment measures taken were: (1) the freeing of interest rates by imposing a ceiling of 15% on active rates instead of the 11% previously in force, in the hope that passive interest rates too would rise by around four points; (2) the decision to follow a more cautious public expenditure policy in 1982 (reflected in the budget for 1982 submitted to the legislature towards the end of 1981 and the announcement that no wage increases would be entertained for the public service in 1982), and (3) the undertaking to finance an increasing proportion of public sector capital expenditure with external financing, so as to increase the access of the private sector to domestic credit without causing a significant increase in the total assets of the intermediation system.

This set of measures indicates a reversal of the type of economic policy applied during 1981, but since the measures were adopted towards the end of the year it may be assumed that they will only begin to affect the performance of the economy in 1983.

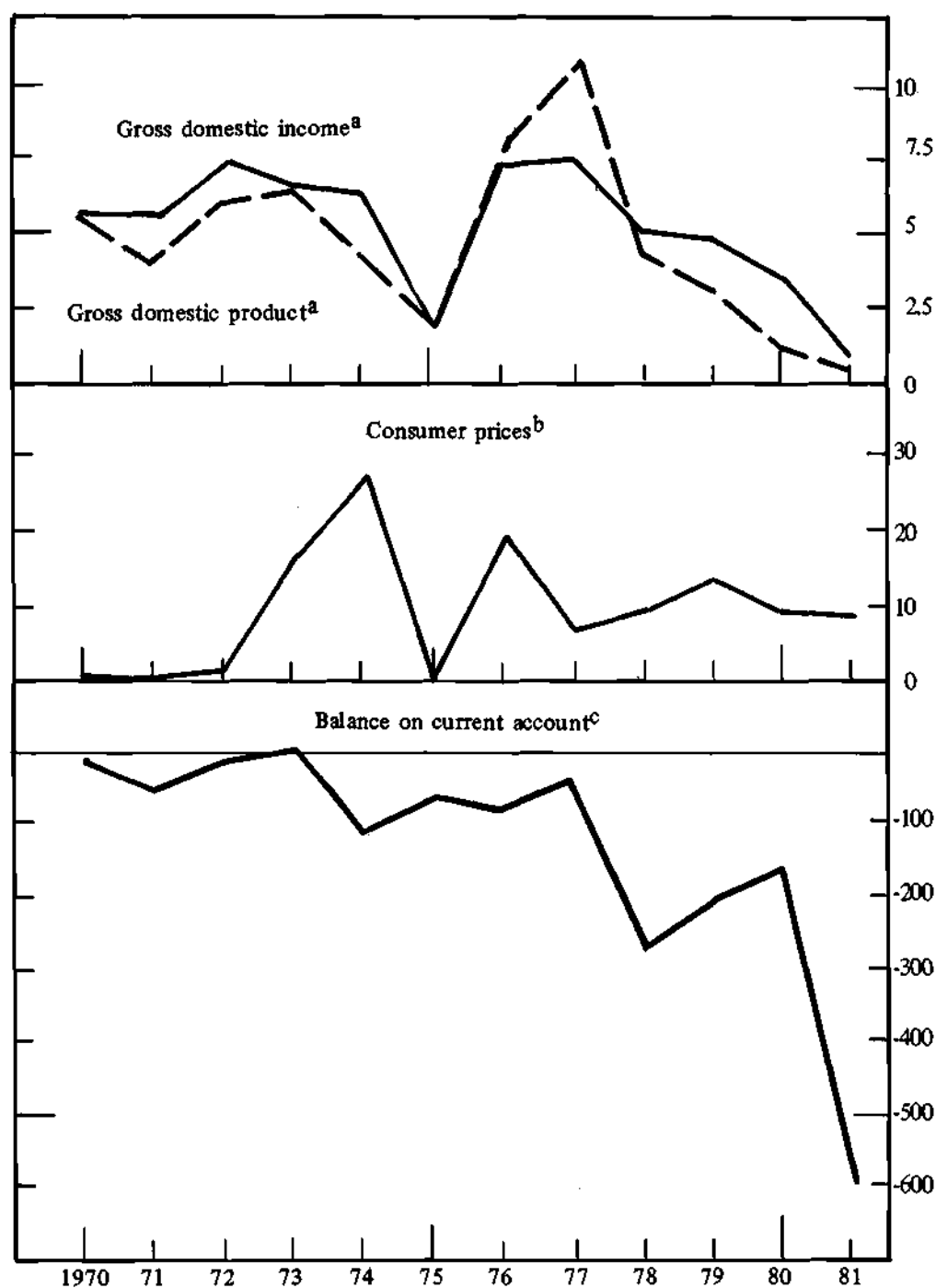
2. Trends in economic activity

(a) *Global supply and demand trends*

Table 2, which shows the evolution of the main global supply and demand variables, is an eloquent illustration of the comments made in the previous section. Thus, the gross domestic product grew by only 1%: the lowest rate recorded in the last 30 years and representing a drop of 1.5% in the per capita product. Nevertheless, in view of the mass of adverse factors faced by the

²See the section on Guatemala in CEPAL, *Economic Survey of Latin America, 1980*.

Figure 1
GUATEMALA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation September - September.

^cMillions of dollars.

country during the year, it might be maintained that even this minimal rate of growth should be interpreted as something of an achievement.

The almost complete stagnation of total demand was due to the sharp contraction in the value of exports (which went down by 9%) and an even sharper drop in private fixed capital formation (which diminished by nearly 14%). The contraction in the export sector was further aggravated by the deterioration in the terms of trade and the financial restrictions which affected various producers because of the need in some cases (such as coffee) to accumulate stocks and in others (such as certain sales to the rest of Central America) to offer export credits to cover arrears in payment.

In contrast, the main source of dynamism during the year was public expenditure, and especially that connected with investment. Although the total incidence of such expenditure in the gross domestic product is only small—it increased from 11.7% in 1980 to 13% in 1981—it is very noteworthy that its relative share in total fixed capital formation rose from 41% in 1980 to almost 51% in 1981. This phenomenon, made possible by the execution of a relatively limited number of large-scale projects—especially those in the yield of hydroelectricity, the port on the Pacific, and a hospital construction programme—enabled the increase in public investment to offset the drop in private investment and permitted the gross domestic fixed capital formation to show a modest increase. Private investment, for its part, would have been even smaller had it not been for the high capital expenditure of several transnational corporations in petroleum prospection and extraction.

On the supply side, although the nominal value of imports rose compared with the previous year, their volume went down. Thus, for the third year running imports grew more slowly than the gross domestic product—the import coefficient dropped from 21% in 1978 to 14% in 1981—in marked contrast with the past performance of the Guatemalan economy and even with the performance observed during most of the 1970s. It is too early to say whether this involves some structural change or if, as seems more likely, it simply shows that in periods of economic recession the marginal propensity to import declines as a result of the shift in demand to essential goods, in respect of which Guatemala has been relatively self-sufficient, especially in 1981 thanks to the high production of cereals. Furthermore, it may be assumed—and the available indicators confirm this—that imports of luxury goods went down in view of the climate of uncertainty mentioned elsewhere in this study.

Finally, in 1981 there was an increase in stocks, due mainly to the substantial amounts of coffee which Guatemala was obliged to withhold under the terms of the International Coffee Agreement. It is estimated that the amount of coffee withheld in this way came to 800 000 bags (of 45 kg each) by the end of the year, which undoubtedly had a marked influence on the changes in stocks shown in table 2.

(b) *Growth of the main sectors*

The evolution of domestic supply at the level of the various branches of activity was very much in line with the overall picture described above. The only sectors which showed a certain amount of dynamism were construction—due exclusively to public investment—and public administration. In contrast, the other sectors of production evolved at rates close to that of the global economy (see table 3).

(i) *The agricultural sector.* With regard to the performance of this sector, two items of particular importance are worthy of note. The first of these is the sluggishness which characterized the sector as a whole, whose growth rate was one of the lowest in the last 30 years, due basically to the slackening of external demand for the two main export products (coffee and cotton) and the difficulties encountered in cotton growing as a result of the very expensive techniques which now predominate. The second item was the considerable dynamism shown by food production, especially of basic grains.

These apparently contradictory facts were actually quite closely connected, since the negative effect of external market conditions on cotton growing acted as a positive element in the

production of cereals, with resources normally devoted to cotton production being diverted to maize growing. Another element which contributed to the exceptionally large cereal harvest was a highly favourable rainfall pattern.

As regards the main export products, it was coffee which faced the most serious problems. In the first place, the contraction in external demand which manifested itself both in a drop in unit prices for this crop and in the need to withhold part of the production under the terms of the quota system established by the International Coffee Organization discouraged the use of modern techniques to maximize production. Secondly, it was more difficult to gain access to financing for harvesting, in view of the severe shortage of domestic credit and the reluctance of some producers to seek credit abroad at the interest rates prevailing in international markets, together with the restrictions which the external suppliers themselves placed on credit. Thirdly, the outbreaks of coffee rust (*hemileia vastatrix*) detected in previous years spread rapidly and the area affected rose from 910 hectares in mid-year to over 4 600 hectares at the end of the year. The presence of this fungus not only reduced coffee yields but also significantly raised cultivation costs. Finally, coffee growing was adversely affected, like most other agricultural activities, by the social and political tensions prevailing in the country, which manifested themselves *inter alia* in acts of violence on the plantations, physical damage in some cases, and interruptions in the normal cycle of harvesting, processing and marketing. For these reasons, the volume of coffee produced dropped by almost 10% (see table 4).

As regards cotton, the area planted for the 1981/1982 season went down by 25% from 105 000 hectares to 79 000 hectares. The reason for this was the declining profitability of this crop because of the drop in international prices on the one hand and the substantial increase in production costs on the other, due to the increasing use of costly inputs, especially chemicals. Moreover, like coffee, cotton growing encountered difficulties in obtaining credit as well as suffering from the problems connected with non-economic factors already referred to. As a result of all these phenomena, the production of ginned cotton went down by almost 23% compared with the previous year, with a consequent drop in the production of cotton seed and of the oil and fat obtained from it.

Table 2
GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	4 524	4 628	4 661	114.4	113.6	3.1	2.2	0.7
Gross domestic product at market prices	3 926	4 064	4 104	100.0	100.0	4.7	3.5	1.0
Imports of goods and services ^b	598	564	557	14.4	13.6	-6.1	-5.7	-1.3
Total demand	4 524	4 628	4 661	114.4	113.6	3.1	2.2	0.7
Domestic demand	3 918	3 929	4 025	99.9	98.1	2.2	0.3	2.5
Gross domestic investment	585	494	562	14.0	13.7	-13.2	-15.4	13.6
Gross fixed investment	581	515	533	12.9	13.0	-5.1	-11.4	3.6
Public	165	211	271	2.8	6.6	7.8	28.0	28.7
Private	416	304	262	10.1	6.4	-9.4	-27.1	-13.5
Changes in stocks	4	-21	29	1.2	0.7	...	...	...
Total consumption	3 333	3 435	3 463	85.9	84.4	5.5	3.0	0.8
General government	296	322	329	7.0	8.0	6.2	8.8	2.1
Private	3 037	3 113	3 134	78.9	76.4	5.4	2.4	0.7
Exports of goods and services ^b	606	699	636	14.5	15.5	9.8	15.4	-9.0

Source: ECLA, on the basis of figures supplied by the Banco de Guatemala.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollar at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for the purpose.

Table 3

**GUATEMALA: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rate		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	3 667	3 797	3 835	100.0	100.0	4.7	3.5	1.0
Goods	1 751	1 809	1 822	47.6	47.8	4.3	3.3	0.7
Agriculture, hunting, forestry and fisheries	1 027	1 045	1 057	30.6	27.7	2.8	1.8	1.2
Mining and quarrying	11	17	15	0.1	0.4	81.3	54.0	-10.4
Manufacturing	555	589	583	14.8	15.3	5.6	6.0	-1.0
Construction	158	159	167	2.1	4.4	6.4	0.2	5.0
Basic services	205	218	220	4.5	5.8	5.6	6.3	0.7
Electricity, gas and water	47	49	48	0.9	1.3	6.1	3.3	-2.3
Transport, storage and communications	158	169	172	3.6	4.5	5.3	7.2	1.6
Other services	1 701	1 752	1 774	47.9	46.4	5.1	3.0	1.3
Wholesale and retail trade, restaurants and hotels ^c	1 000	1 026	1 035	27.3	27.1	4.4	2.7	0.9
Ownership of dwellings	183	189	192	7.5	5.0	3.6	3.0	1.9
Community, social and personal services ^d	518	537	547	13.1	14.3	7.1	3.6	1.9
Government services	262	274	282	6.8	7.4	6.6	4.5	3.0

Source: ECLA, on the basis of figures supplied by the Banco de Guatemala.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cIncludes financial institutions, insurance and real estate, except ownership of dwellings.

^dIncludes restaurants, hotels and business services.

The professional associations of coffee and cotton growers sought relief from the situation through which they were passing and proposed to the Government various measures aimed at reducing tax levels and improving access to credit. Although the Government did not comply with all their requests it did reduce the tax base of the export taxes on these two products: an aspect analysed in more detail below.

The evolution of the other export commodities followed more normal trends. Thus, the area of sugar cane harvested and the volume of cane milled increased by approximately 5.5%, while the volume of bananas produced increased by 10%. Cardamom continued to be an important export product, but its growth is apparently nearing its limit, since the volume increased only 3.5% compared with the previous year.

As regards products for domestic consumption, their output grew very rapidly due partly, as already noted, to an exceptionally favourable rainfall pattern, partly to the diversion of some 23 000 hectares of land from cotton growing to the very intensive cultivation of cereals (especially maize), and partly to the remunerative levels of the support prices fixed by the Agricultural Marketing Institute (INDECA). Altogether, production of cereals (maize, rice and wheat) increased by 10.5% with respect to 1980, while production of beans rose by 60% over the abnormally low level of the previous year (see table 4).

The livestock sector also registered quite rapid growth in spite of the restrictions imposed for several weeks, for sanitary reasons, on the access of frozen meat to the United States, which is the main export market. According to official data, beef production increased by nearly 9%, while production of pork, mutton and poultry meat continued its growth rate of previous years, this growth being very rapid in the case of the last of these products.

In spite of the foregoing, however, the very high weighting of coffee and cotton in total production helped to offset the upward trend shown by the rest of the agricultural sector, so that overall in this sector recorded one of its slowest growth rates in recent years. This reduced employment opportunities³ and led to a drop in the volume of exports. The Government reacted to this situation by reducing taxes on these two crops, which, in turn, aggravated the fiscal deficit referred to below.

Finally, it may be noted that the events of 1981 may be of some importance for the evolution of the structure of distribution in the future, for two reasons. Firstly, because the relative complexity and high cost of combating coffee rust means that this action is normally not within the reach of small producers, of whom there are some 45 000 in Guatemala compared with some 2 500 medium-sized and large producers. Experts in the matter consider that the differential access of the different strata of producers to the technological and financial resources needed to control the rust disease could force most of the small producers out of this activity within four to five years. Secondly, because of the high yields capable of being achieved in maize production through the use of modern technology on land normally prepared for export crops, this too has displaced thousands of subsistence peasants out of coffee growing, at least in 1981.

(ii) *Mining.* The main mining activity in Guatemala during the period 1977/1979 was the exploitation of nickel deposits. During the last quarter of 1980, however, this activity was temporarily suspended because of the adverse conditions prevailing on the international market, and in 1981 not only did the processing enterprise not resume operations, as had been foreseen, but it closed down for an indefinite period, with the consequent dismissal of most of its staff. Thus, in 1981 mining production registered a substantial drop compared with the previous year, since the other mining activities of the country —extraction of lead, cadmium and copper— have only an insignificant share in the total gross domestic product.

With regard to petroleum activity, which was begun on an incipient scale in 1978, it had been hoped that there would be a rapid increase in such activity as the work of the four transnational corporations carrying on an active prospecting programme in various areas in the north of the country progressed. The increase in the volume of petroleum extracted in 1981 compared with the

Table 4

GUATEMALA: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of agricultural production (base year 1975 = 100)	112.8	116.4	118.3	119.4	3.9	3.2	1.6	0.9
Crop farming	108.1	110.9	112.4	111.6	0.8	2.6	1.3	-0.8
Stock-raising	120.5	125.2	127.5	133.2	8.8	3.9	2.2	4.1
Production of the main crops (thousands of quintals)								
Coffee	3 276	3 500	3 553	3 205	1.6	3.8	1.5	-9.8
Cotton	3 231	3 441	3 159	2 432	8.4	8.2	-8.2	-22.9
Bananas ^b	13 510	13 047	16 271	18 007	9.9	0.4	30.2	10.5
Sugar cane ^c	104	94	108	114	-21.2	-9.6	15.0	5.5
Maize	19 705	20 448	21 668	23 937	16.6	3.8	5.9	10.5
Beans	3 141	2 985	2 651	4 246	6.6	-5.0	-11.2	60.3

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bThousands of hands.

^cMillions of quintals.

³The decline in cotton growing alone led to there being some 40 000 seasonal jobs (60 days) less than in the previous year.

Table 5

GUATEMALA: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of manufacturing production (1977 = 100)	106.6	112.5	119.3	118.0	6.5	5.6	6.0	-1.0
Foodstuff	106.7	113.2	121.7	...	6.6	6.4	7.3	...
Textiles	105.7	111.4	113.6	...	6.0	4.7	0.2	...
Clothing	102.8	110.2	109.3	...	3.4	6.5	-0.6	...
Chemical products	108.8	111.8	117.6	...	6.4	3.8	6.0	...
Others	107.3	112.8	120.9	...	7.4	5.0	7.3	...
Other indicators of manufacturing production								
Consumption of electricity by industry (GWH)	523.0	545.0	528.7	...	10.3	4.2	-3.0	...
Employment (thousands of persons)	70.6	69.5	...	...	-0.3	-1.5	...	...

Source: ECLA, on the basis of official data.

^aPreliminary figures.

preceding year was only modest, however, despite the official announcements of a substantial increase in the country's proven reserves. Thus, average extraction in 1981 came to some 4 500 barrels per day (rising to 6 600 during the last quarter), compared with 4 100 barrels per day in 1980. This slow rate of operations —the enterprises had requested authorization to increase production to 12 000 barrels per day— was due to the Government's conservation policy aimed at maintaining a suitable relation between the level of exploitation and the proven reserves. Action aimed at expanding the scale of these operations continued, however, through an invitation to submit tenders for the signing of prospecting and operating contracts in new areas in the northern Guatemala sedimentary basin.

(iii) *Manufacturing*. The manufacturing sector had to face up to two adverse phenomena in 1981: the drop in the general level of economic activity, and the increasing restrictions on trade in manufactures within the framework of the Central American integration process. These two phenomena were reflected in a contraction —or, in the best of cases, very slow growth— in demand for most manufactures, especially those of a non-essential nature.

There are unfortunately few indicators regarding this situation, but those which exist fully support the foregoing assertions. Thus, for example, the volume of cigarette production in the first nine months of the year was almost 24% below that of the same period in 1980, and a comparable phenomenon occurred with the manufacture of alcoholic liquors and beer. The Guatemalan glass bottle plant, which had been working three shifts a day during 1980, reduced its level of activity to only one shift during the second half of 1981. Businessmen connected with the branches of industry producing clothing, textiles, footwear and some canned foods reported reductions in the volume of production and level of employment compared with the previous year. Most of the activities connected with construction, too, were adversely affected by the decline in this sector, as is shown by the drop of 1% in cement production. In contrast, the pharmaceutical industry kept up a relatively rapid rate of expansion, connected no doubt with the essential nature of its products and hence their ready access to the rest of the Central American Common Market.

To sum up, the sector as a whole was in a state of virtual stagnation (see table 5). The estimate that the value added in manufacturing went down by 1% might even turn out to be very conservative if we take into account the following indicators: consumption of electricity by manufacturing enterprises went down by almost 8% in the first 11 months of the year compared with the same period the preceding year; imports of raw materials went down in real terms by approximately 5%; and exports of manufactures to the rest of Central America went down in real terms by over 20%.

This unfavourable picture, which was accompanied by rising levels of unemployment among urban workers, also led to a decline in investments in new manufacturing activities or in the expansion of existing ones. The only new industrial project worthy of note which was in course of execution in 1981 was a sawmill complex which forms the first stage of a pulp and paper industry promoted by the National Finance Corporation with the participation of Spanish capital.

In response to the foregoing phenomena, industrial policy revolved around the need to diversify markets for the existing industries. Government authorities and businessmen made several visits to explore new markets, especially in neighbouring Caribbean countries, and the Executive sent to Congress various bills aimed at promoting exports of manufactures to markets outside the region through tax concessions, the granting of preferential credit and other promotional measures. At the time of writing this study, these bills were still under consideration.

(iv) *Construction.* Although the high level of public investment enabled the construction sector to show a growth rate slightly higher than other economic activities, its rate of expansion was much lower than that registered in previous years. This is attributable to a very significant contraction in all types of private construction. Thus, for example, construction permits issued in Guatemala City, expressed in thousands of square metres of construction, showed a drop of 39% in the first ten months of the year compared with the same period the year before, and it should be recalled that even this level was considerably less than it had been in 1979 (see table 6). This reduction was partly due to a certain levelling off in the reconstruction work to make good the effects of the February 1976 earthquake, but it reflected to a greater extent the generalized contraction in economic activity and the uncertainty generated by the non-economic factors already referred to.

With the aim of partially offsetting this trend, the Government established a programme for promoting private housing construction through the rediscounting at preferential rates of credits for this purpose. Under the terms of this programme, about 80 million quetzales were granted in credits through the banks in the system.

For its part, the Government significantly increased its investments in the construction sector, partly through the construction of buildings —hospitals and schools— to make good the losses caused in the 1976 earthquake. Other projects, such as the civil engineering works for hydroelectric plants, highways, and the port on the Pacific, required more capital-intensive techniques, so that it may be assumed that on balance the construction sector offered fewer productive jobs in 1981 than in previous years. Unfortunately, however, there are not sufficient indicators to confirm this assumption.

Table 6
GUATEMALA: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Area constructed^b (thousands of m ²)								
Total	634	521	228	123.0	22.4	-17.8	-56.2	-38.8
Dwellings	278	229	128	70.9	-1.0	-17.6	-44.0	-39.5
Production of cement (index 1972 = 100)	208.2	231.9	226.6	232.3	4.6	11.4	-2.3	-0.9
Employment^c (thousands of persons)	35.1	35.3	...	...	41.6	0.6	...	...

Source: ECLA, on the basis of official data.

^aJanuary-October 1981 compared with the same period in 1980.

^bRefers to construction permits issued in the capital. Does not include reconstruction programmes.

^cMembers of the Guatemalan Social Security Institute.

(v) *Other sectors.* The services sectors, including transport, commerce and finance and private services, evolved at rates in line with that of economic activity in general. A noteworthy feature was the pronounced drop in the growth rate of commerce, which must undoubtedly have had adverse repercussions on urban employment. Another services activity which suffered a sharp contraction for the second year running was tourism, which was influenced by the recession in the industrialized countries and the climate of violence prevailing in Guatemala.

(c) *Employment and unemployment*

There are very few statistics on employment in Guatemala, but there are numerous indicators which suggest that the level of productive employment went down in 1981 and that open and concealed unemployment increased, probably to a significant extent.

The most important item of information is the number of workers who are members of the Guatemalan Social Security Institute. In the past, this membership has grown very rapidly, partly through the expansion of the labour force and partly through the extension of social security arrangements. In 1981, however, the number of workers who are members of the Institute went down by 1.3% in absolute terms compared with the year before, while the decline in the case of members of private firms was even greater (2.5%).

The Government's response to this phenomenon was to try to increase the job opportunities in various kinds of public works. Thus, according to information from the Guatemalan Social Security Institute, the number of permanent workers employed by the State increased by 9.5%, while the number of temporary workers employed on specific projects rose by 5%. As already noted, however, it would appear that the criterion of creating employment was not considered one of the most important in the selection of public works.

3. The external sector

In 1981 Guatemala was seriously affected by the economic recession in the main industrialized countries, as well as by the financial policy followed by the monetary authorities of the United States, which was reflected, *inter alia*, in high rates of interest in the main international financial centres. Thus, Guatemala was faced with declining external demand for its main export products (especially coffee, cotton and nickel) and for certain services (particularly tourism). This phenomenon was aggravated by the deterioration in the level of trade with the Central American countries, and in spite of the relatively modest growth rate of the value of imports, 1981 closed with the biggest current account deficit recorded in the country's history.

On the capital account side, for various reasons which will be analysed below, Guatemala only mobilized a modest flow of net public and private external financing, so that the authorities were obliged to resort to short-term lines of credit and to the International Monetary Fund, from which it obtained financing totalling US\$ 110 million. This was not enough to cover the current account deficit, so that there was a loss of US\$ 295 million for the international currency reserves, leaving the country in a much less comfortable position to face the continuing ups and downs of the international economy in 1982 than it had enjoyed the year before.

(a) *Merchandise trade*

After its big expansion during the period 1972-1980, the value of exports of goods went down by a little over 14% in 1981. This decline reflected the contraction in external demand for the main export items (coffee and cotton), the total disappearance of another item (nickel) which had been of some importance in the previous two years, and the non-fulfilment of the expectations that there would be a significant increase in exports of petroleum (whose volume actually went down due to a modest increase in domestic consumption of hydrocarbons). The drop in the value of external sales was due both to the reduction in their volume (-7%) and the decline in their unit value (-8%) (see table 7). In the case of some items such as coffee, the drop in unit prices was very

significant, thus further discouraging efforts to increase efficiency in the cultivation and harvesting of this product. The price of bananas, however, improved quite substantially.

Exports of most of the traditional commodities other than coffee —sugar, frozen meat and bananas— grew fairly rapidly, since their value increased by between 12% and 23% (see table 8).

The efforts made in previous years to diversify and expand exports also continued to show a moderate degree of success, as the value of non-traditional exports to the rest of the world, other than those of cardamom, nickel and petroleum, rose from US\$ 170 million in 1980 to US\$ 205 million in 1981. This group of products is made up of a wide range of goods which includes foodstuffs, fresh vegetables and pulses, flowers, essential oils, textiles and other manufactures. Nevertheless, the relative share of this group of exports in the total did not amount to 16%.

Finally, the value of exports to the other Central American countries went down by 14% as a result of a drop of over 20% in their volume. Although this decline did of course adversely affect the Guatemalan manufacturing sector, three comments need to be made. Firstly, exports to Central America had been abnormally high in 1980 due to the extraordinary import requirements caused by the process of reconstruction in Nicaragua. Thus, if the figure for exports in 1981 is compared with the figures for the last years of the 1970s, it represents a continuation of the upward trend. Secondly, the drop in the value of exports to Central America was less than the drop in sales to the rest of the world, so that intra-regional trade continued to play its role of offsetting to some extent the adverse effects caused by the rest of the world economy. Thirdly, Guatemala's imports from the rest of the Central American market also went down —from nearly US\$ 220 million in 1980 to a little over US\$ 190 million in 1981— so that the surplus which Guatemala has traditionally achieved in its trade with the rest of the region was practically maintained, thus helping to avoid a more serious deterioration in the overall trade account of the country.⁴

The value of total imports of goods, for its part, rose by a little over 7% as a result of an increase of nearly 3% in their volume and almost 4.5% in their unit value. This latter increase, however, was much less than those recorded in the previous two years, and indeed was the lowest

Table 7

GUATEMALA: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods						
Value	18.6	52.6	-5.8	11.8	24.4	-14.2
Volume	0.9	12.1	-7.0	9.6	22.7	-6.8
Unit value	17.5	36.1	1.2	2.0	1.4	-8.0
Imports of goods						
Value	41.4	14.3	18.1	9.2	5.0	7.3
Volume	31.6	3.1	11.6	-7.9	-14.9	2.8
Unit value	7.5	10.9	5.8	18.6	23.4	4.4
Terms of trade (goods)	9.5	24.6	-5.5	-13.5	-16.2	-12.5
Indexes (1970 = 100)						
Terms of trade (goods)	73.8	91.9	86.9	75.1	63.0	55.1
Purchasing power of exports of goods	114.4	160.2	141.9	137.2	146.4	118.0
Purchasing power of exports of goods and services	126.0	156.8	143.3	140.7	143.9	114.9

Source: ECLA, on the basis of official data.

^aPreliminary figures.

⁴Another indicator of the importance of regional demand for the Guatemalan export sector is that in both 1980 and 1981, 20% of the total exports of goods went to the other Central American countries, while the corresponding figures for imports in these years were 15% and 12%, respectively.

Table 8

GUATEMALA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	1 092	1 221	1 520	1 304	100.0	100.0	11.8	24.5	-14.2
Exports to Central America	255	306	441	379	34.4	29.1	20.2	44.2	-14.1
Exports to the rest of the world	837	915	1 079	925	65.6	70.9	-2.4	18.0	-14.3
Traditional	695	713	770	664	57.1	50.9	2.3	8.0	-13.8
Green coffee	475	432	464	323	33.9	24.8	-9.0	7.4	-30.4
Ginned cotton	139	189	165	173	8.9	13.3	35.4	-12.7	4.9
Bananas	24	19	44	50	6.9	3.8	-20.4	129.3	11.9
Meat	31	38	28	33	4.3	2.5	23.6	-26.3	15.1
Sugar	26	35	69	85	3.1	6.5	27.8	97.1	22.9
Non-traditional	142	202	309	261	8.5	20.0	41.3	53.0	-15.5
Cardamom	27	49	56	34	1.3	2.6	82.2	14.3	-38.3
Nickel	7	27	59	-	-	-	288.6	117.3	-
Petroleum	...	...	24	22	...	1.7	...	...	-5.5
Miscellaneous	108	126	170	205	7.2	15.7	16.7	34.9	20.6

Source: ECLA, on the basis of official data.

^aPreliminary data.

in the last 10 years. An example of this trend towards a slackening in the growth rate of the average price of imports was that of hydrocarbons, whose unit price rose much more slowly (17%) than in previous years, due to the excess supply of petroleum on the world market, especially during the second half of the year.⁵ Even so, because of this increase in unit value the incidence of imports of fuels and lubricants in the total value of imports grew from 21% in 1980 to 24% in 1981, which shows that the rise in prices of liquid energy sources, as in previous years, continued to exert substantial pressure on the country's balance of payments in 1981.

The evolution of imports of goods in the other groups was in line with the general economic picture. The value of imports of raw materials grew by only 3.5%, while imports of capital goods increased by 5%, meaning the volume of both these items was less than in the previous year. The contraction in the general level of economic activity was also reflected in the fact that the nominal value of imports of consumer goods remained constant (see table 9).

Altogether, because of a deterioration in the terms of trade and the drop in the volume of exports of goods, the purchasing power of the latter went down by about 20% compared with the year before.

The main measures taken by the authorities to correct the growing current account deficit were aimed at facilitating exports. Thus, in mid-year the tax base for taxes on exports of coffee and cotton was reduced, and some missions were also carried out to Caribbean countries to promote the sale of non-traditional products. No measures were taken, however, to contain imports of goods, although an effort was made to contain the spending of foreign exchange to acquire certain services.

⁵During 1981, almost the whole of Guatemala's hydrocarbon imports came from Mexico and Venezuela, under the energy co-operation programme established by those countries. As will be seen below, the financing of 30% of these imports provided for under the programme became an important item in the financing of the capital account.

(b) *The services trade and factor payments*

Exports of services went down even faster than those of goods, in both nominal (20%) and real terms. Since, in contrast, imports of services went down much less (2%), the negative balance on services became the main source of the deficit on the balance-of-payments current account.

The drop in exports of services was due primarily to the continued decline in the income from international tourism, attributable both to the economic recession in the main countries of origin of the tourists and to the acts of violence associated with the non-economic factors prevailing in Guatemala.⁶ The number of visitors went down by 30% compared with the already low level of the previous year, and the index of occupation of the main hotels was less than 50%. Secondly, it is probable that various items in the services account (and the transfers account) conceal a continued flight of foreign exchange, encouraged no doubt by the uncertainty accompanying the non-economic factors already mentioned. The abnormally low surplus on the transfers account and the extremely high deficits on the "miscellaneous" and investment income accounts suggest that the foreign exchange associated with these categories ceased to flow into the country and went partly to supply a small but growing currency black market which arose with the introduction of exchange controls in 1980, which were modified in September 1981.⁷

Precisely in order to relieve the pressure on the balance-of-payments current account, in September the monetary authorities adopted some additional restrictive measures regarding the sale of currency for travel, remittances to family members and medical and educational expenses abroad.

(c) *The current account position and its financing*

Both the trade account and the current account showed record deficits: the deficit on the latter account came to somewhat over US\$ 590 million and was equivalent to 40% of the total value of exports of goods and services and 6.8% of the gross domestic product. In addition, the country lost international currency reserves for the second year running: this time for a total of US\$ 295

Table 9

GUATEMALA: IMPORTS OF GOODS, CIF

	Millions of dollar				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	1 391	1 504	1 598	1 715	100.0	100.0	8.2	6.3	7.3
Consumer goods	335	358	341	342	29.7	19.9	6.9	-4.8	0.3
Durable	124	133	123	117	9.3	13.1	7.3	-7.5	-5.0
Non-durable	211	225	218	225	20.4	6.8	6.7	-3.1	3.0
Intermediate goods	682	793	955	1 053	48.0	61.7	16.2	20.4	10.3
Petroleum and fuels	170	234	339	411	5.0	23.5	37.5	44.9	21.2
Building materials	86	101	93	100	6.3	6.0	16.7	-7.9	7.9
Others	426	458	523	542	36.7	32.2	7.6	14.2	3.5
Capital goods	363	338	286	300	20.8	17.3	-6.8	-15.4	5.1
For agriculture	35	23	19	16	1.9	0.9	-33.0	-17.4	-15.0
For industry	228	226	193	221	14.6	12.6	-0.7	-14.6	14.6
For transport	100	89	74	63	4.3	3.8	-11.5	-16.9	-15.1
Miscellaneous	10	14	16	20	1.5	1.1	38.3	14.0	18.9

Source: ECLA, on the basis of official data.

^aPreliminary figures.

⁶In August 1981, the State Department of the United States of America even issued a warning to citizens of that country regarding the risks involved in visiting Guatemala.

⁷Because of the very nature of these transactions, however, it is impossible to estimate their total amount.

million, or half the deficit referred to. The rest of the deficit was covered by IMF compensatory financing (US\$ 110 million) and official loans (see table 10).

The only positive item with regard to private capital income was that regarding direct investment, basically associated with the oil prospection and exploitation activities.

The accounts for private sector credit —both long-term and, especially, short-term— also showed negative balances, which is attributable firstly to the differences between the interest rates prevailing in Guatemala and those on the international market —which encouraged pressure on domestic intermediaries and discouraged the procurement of credits abroad— and secondly, to the growing difficulties encountered by both public and private borrowers in mobilizing external finance because of the deterioration in the country's image owing to factors of a non-economic nature.⁸

To sum up, the deficit on the balance-of-payments current account in 1981 was mainly financed by compensatory loans, lines of credit from the Central Bank, and the loss of reserves, so that the absolute level of the latter at the end of the year came to US\$ 345 million, which was barely sufficient to finance 10 weeks' imports at the levels prevailing in 1981, while the net reserves showed a deficit of some US\$ 98 million.⁹

(d) *External indebtedness*

As already noted, in spite of the record deficit on the balance-of-payments current account the mobilization of net external credit during 1980 was relatively modest. The private sector preferred to use domestic credit, and the main capital flows were recorded under the heading of direct investment.

The Guatemalan public sector, for its part, had only a relatively small external debt up to 1980 and its structure was very favourable because the great majority of it came from official sources of finance, frequently on concessional terms. Consequently, Guatemala has traditionally had one of the lowest coefficients of the whole of Latin America (around 3%) for its external debt servicing as a percentage of exports. In 1981, the tendency towards prudent external public indebtedness was maintained, but some negotiations for supplier credits were initiated which would tend to cause a deterioration in the external public debt structure in the future. Even so, however, at the end of the year the external public debt indicators continued to be among the most favourable in the region (see table 11).

4. Prices and wages

(a) *Prices and anti-inflationary policy*

The Government did not have any occasion to resort to conventional anti-inflationary policies in 1981, since the accent was placed on policies aimed at maintaining a minimum level of economic activity in view of the fact that the inflationary pressures originating in the external sector —which have traditionally borne much of the responsibility for rises in domestic prices— tended to slacken in 1981. As already noted, the Government followed rather an expansive policy in public spending, and the way in which this policy was financed might well have helped to generate inflationary pressures through excess demand. Because of the degree of openness of the economy, however, these pressures tended to be absorbed through the external sector by way of imports, rather than through changes in the level and structure of domestic prices.

Thus, the general consumer price index rose by 8.8% in December 1981 with respect to the same month in the previous year, while the variation in this indicator annual averages came to 11.4%. This rate was slightly higher than the inflation figures for most of the industrialized

⁸The capital account, like the current account, probably also conceals some flight of capital.

⁹However, these reserves include gold valued at 1970 prices. If this gold were revalued at the prices prevailing in 1981, this would provide approximately an extra US\$ 150 million.

Table 10

GUATEMALA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	783	985	1 336	1 298	1 473	1 757	1 494
Goods FOB	641	780	1 160	1 092	1 221	1 520	1 304
Services ^b	142	225	176	205	252	237	190
Transport and insurance	22	26	28	33	40	43	55
Travel	78	66	66	67	82	62	31
Imports of goods and services	860	1 213	1 435	1 652	1 793	1 971	2 071
Goods FOB	672	951	1 087	1 284	1 402	1 472	1 580
Services ^b	188	262	348	368	391	499	491
Transport and insurance	85	118	172	142	161	187	199
Travel	55	82	100	108	120	164	133
Merchandise balance	-31	-190	73	-191	-180	47	-276
Trade balance	-77	-277	-99	-354	-320	-214	-577
Profits and interest	-66	-49	-32	-32	-13	-59	-105
Profits	-51	-60	-33	-35	-45	-42	-40
Interest	-16	11	1	3	32	-17	-65
Unrequited private transfer payments	78	198	94	115	123	109	89
Balance on current account	-65	-79	-37	-271	-209	-164	-593
Unrequited official transfer payments	-	1	2	1	3	1	1
Long-term capital	169	100	199	268	258	248	...
Direct investment	80	12	97	127	117	111	141
Portfolio investment	-2	-	5	12	5	4	...
Other long-term capital	91	87	96	129	135	133	...
Official sector ^c	52	53	68	102	112	107	261
Loans received	63	57	82	117	130	122	288
Amortization payments	-9	-9	-14	-15	-18	-18	-27
Commercial banks ^c	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	39	34	28	27	23	26	...
Loans received	49	53	43	58	60	25	...
Amortization payments	-21	-34	-24	-41	-47	-10	...
Basic balance	103	22	164	-3	52	85	...
Short-term capital	12	143	42	131	-44	-316	-137
Official sector	-	-4	-	8	2	59	40
Commercial banks	3	5	1	3	13	9	10
Other sectors	9	142	41	121	-59	-384	-187
Errors and omissions	-11	52	-28	-58	-30	-24	-79
Balance on capital account	169	296	215	341	186	-91	187
Global balance ^d	104	217	178	70	-23	-255	-406
Total variation in reserves (minus sign indicates an increase)	-102	-207	-178	-73	45	252	406
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	1	-	-1	-1	-9	2	20
IMF reserve position	-	-3	-1	-2	-2	-9	18
Foreign exchange assets	-104	-204	-176	-70	56	259	257
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-	-	-	-	-	-	111

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook*; (magnetic tape, March 1982); 1981: ECLA, on the basis of official data.

^aPreliminary figures.

^bServices also include other official and private transactions, but not profits and interest.

^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

economies (the rise in the import price index was nearly 8% in 1981), and it was similar to the rates observed in the previous two years (see table 12). The evolution of food prices was somewhat below the general index, perhaps because of the adequate supply of domestically produced food. The wholesale price index, for its part, rose by only 4% in December 1981 with respect to the same month in 1980, while its increase in terms of annual averages was 12%.

Some measures aimed at reducing the impact of inflationary pressures which had been adopted in previous years were maintained in 1981. Thus, for example, a subsidy continued to be paid to urban public transport, at a cost to the central government of some 10 million quetzales, and maximum prices were maintained for a limited list of articles which included milk, sugar, cooking oil, some raw materials and cement. The tendency during the year, however, was to adjust these maximum prices upwards in order not to discourage production. Maximum prices were also maintained for petroleum products, but the cost of hydrocarbons was transferred selectively to the final products, with the price of gasoline being raised proportionately more than the average and those of diesel oil and kerosene, which are the fuels of highest incidence in the spending of the poorest strata, being increased much less than the average.

Table 11

GUATEMALA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1976	1977	1978	1979	1980 ^a	1981 ^a
Total external indebtedness ^b	588	669	821	934	1 057	...
Public debt and State-guaranteed private debt	233	296	391	514	609	800
Servicing of external debt ^c	20	22	24	31	35	45
Amortization payments	14	14	14	18	19	25
Interest payments	6	8	10	13	16	20
Servicing of external debt, as a percentage of exports of goods and services	2.0	1.6	1.8	2.1	2.0	3.0

Source: ECLA, on the basis of official data.

^a Estimates.^b Disbursed.^c Includes public and private external debt.

Table 12

GUATEMALA: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981
Variation December to December						
Consumer price index	18.9	7.4	9.1	13.7	9.1	8.8
Food	16.9	5.9	8.2	13.3	8.2	4.8
Wholesale price index	10.8	6.3	4.7	18.7	12.0	4.0
Imported products	16.0	-7.4	3.5	25.5	6.8	...
Domestic products	10.1	8.5	4.8	18.1	12.4	3.5
Building materials	38.5	5.0	13.0	30.4	3.5	...
Variation between annual averages						
Consumer prices index	10.7	12.6	7.9	11.5	10.7	11.4
Food	9.6	11.0	4.6	10.3	11.2	11.3
Wholesale price index	10.5	13.0	3.6	10.3	16.0	11.8
Imported products	9.8	3.2	1.6	15.2	19.0	...
Domestic products	10.5	14.5	3.8	9.9	15.7	11.9
Building materials	29.0	18.8	15.7	13.8	12.5	...

Source: ECLA, on the basis of official data.

(b) *Wages*

In order to understand the significance of the scanty data available on the evolution of wages in 1981, it is necessary to recall some important events which took place in this field in the previous year. Although the organized worker movement had been weakened by confrontations which were not always devoid of violence, in March 1980 there was a large-scale strike by agricultural workers on cotton and sugar plantations, and after a period of negotiations, it was agreed to raise the minimum legal wage from 1.12 quetzales per day to 3.20 quetzales: a measure which affected some 600 000 workers. At the same time, it was agreed to grant substantial increases in urban minimum wages. Although these increases were applied gradually, and were not always complied with in all enterprises, it would appear that by the end of 1980 most of the agricultural and urban enterprises were complying with them. This means that when comparing the calendar year 1981 with the whole of 1980, it would be reasonable to expect increases in average wages, even if the wages had not been adjusted during the period covered by this study.

This, indeed, is what the data suggest. The figures supplied by the Guatemalan Social Security Institute indicate that despite a reduction in the number of workers who are members of the Institute —because of the lower level of economic activity and perhaps also because of the increase in minimum wages referred to, which caused many enterprises to eliminate what they considered to be redundant labour— the total wages for which official figures are available grew by 39% in nominal terms and nearly 25% in real terms (see table 13).

Unfortunately, no other indicator is available for measuring the evolution of wages in 1981. It may be noted, however, that during the entire year there was no variation in the minimum wages established by the central government, while the adjustments in the wages of public employees — the so-called "emergency bonuses" — were much lower than those of previous years.

Table 13

GUATEMALA: EVOLUTION OF WAGES AND SALARIES^a

	Indexes (1970 = 100)					Growth rates				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Wages and salaries										
Nominal	120.3	136.2	154.6	170.1	236.1	-4.2	13.2	13.5	10.0	38.8
Real	64.3	67.4	68.6	69.2	86.2	-14.9	4.8	1.8	0.9	24.6

Source: ECLA, on the basis of official data.

^aRefers to data from the Guatemalan Institute of Social Security on the number of social security contributors and the wages and salaries declared in the period concerned.

5. Fiscal and monetary policies

(a) *Fiscal policy*

The financial situation of the central government, which has been deteriorating for some years past, got considerably worse in 1981 because of the drop in revenue and a moderate expansion in operating expenses, accompanied by very rapid expansion of capital expenditure. Thus, while fiscal income stagnated, total expenditure rose by more than 17%, so that the central government deficit increased to the record level of nearly 730 million quetzales, equivalent to 6.5% of the gross domestic product (see table 14). As a result, the tax burden went down for the third year running, sinking to 7.5%: one of the lowest in the whole of Latin America, and two points below the 1978 level. This was due partly to the progressive nature of export taxes, which reduces the incidence of these duties on the products in question more rapidly than the drop in international prices. Moreover, in mid-year the Government decided to relieve further the situation of the coffee and cotton growers by reducing the tax base on which the taxation they have to pay is calculated (in the case of coffee, this base had already been reduced once towards the end of

Table 14

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of quetzales				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
1. Current income	661	668	747	746	1.0	11.8	-0.2
Tax revenue	621	621	678	656	0.1	9.2	-3.4
Direct	102	97	100	110	-4.6	3.1	9.4
Indirect	519	524	578	546	1.0	10.3	-5.5
On foreign trade	264	241	259	172	-8.6	7.4	-33.6
2. Current expenditure	476	540	678	720	13.4	25.5	6.1
3. Saving on current account (1 - 2)	185	128	69	26	-30.7	-46.1	-62.3
4. Capital expenditure	323	382	578	753	18.2	14.6	34.9
Real investment ^b	259	310	438	591	19.7	41.3	34.9
Debt amortization payments	64	72	140	162	12.5	94.4	15.7
5. Total expenditure (2 + 4)	799	922	1256	1 473	15.3	21.0	17.4
6. Fiscal deficit (or surplus) (1 - 5)	138	254	509	727	84.0	45.3	53.1
7. Financing of deficit							
Domestic financing	37	122	391	646	229.1	220.5	65.2
External financing	101	132	118	81	30.6	-10.6	-31.3

Source: ECLA, on the basis of official data.

^aPreliminary figures.^bIncluding other capital expenditure.

1980).¹⁰ As a result of the drop in the world price of coffee and of this change, tax revenue on exports of this product alone went down by over 80 million quetzales —almost half the amount collected in 1980— thus offsetting the additional income generated by the increase in the rate of stamp tax from 2% to 3%, which came into force on 1 January 1981. Revenue from this tax, which is applied on transactions "in cascade", only increased by 60 million quetzales (see table 14).

The other types of tax revenue evolved in line with the slowing down of the economy already described, except in the case of revenue from business income tax, which increased by 18% over the abnormally low level of 1980. Official sources attribute this increase —which was partly offset by the drop in the collection of personal income tax— to improvements in tax administration. Revenue from import duties went down in absolute terms, and its average incidence in relation to the value of imports declined from 6.9% in 1980 to 6.2% in 1981, perhaps because of the larger weighting of public sector imports —which are duty free— in the total. The only category which showed some dynamism was that of the royalties which the Government receives in respect of the incipient exploitation of petroleum, the yield of which almost doubled, rising from 13.6 million quetzales in 1980 to 26.6 million in 1981.

Operating expenditure increased at a relatively slow pace, especially in comparison with the immediately preceding years. The nominal increase of 6% included a modest wage increase ("emergency bonus"), an increase of 4 million quetzales for payments of interest on the public debt, the expansion of some programmes —especially in the branches of education, health and security— and increases in transfers to the municipalities of the country, financed through 50% of the real estate tax.

¹⁰The taxes on exports of coffee and cotton are applied at a progressive rate on the basis of the FOB export value. The changes made in the tax tables for cotton (in June) and coffee (in August) raise the FOB value above which the tax is applied. Thus, for example, under the previous tariff the first 70 dollars per 46 kg bag of coffee were free of tax, whereas under the new table this threshold figure is raised to 90 dollars (and to 110 dollars in the case of exports outside the quota system to countries which are not members of the International Coffee Organization).

As a result of the stagnation of current revenue and the moderate growth in operating expenditure, the saving on current account virtually disappeared, sinking to less than 30 million quetzales: not even enough to cover the amortization of the public debt, which required 92 million quetzales in 1981. In other words, almost the whole of capital expenditure—including most of the commitments in connexion with the amortization of the debt—were financed through further indebtedness.

This capital expenditure grew very rapidly not only because of the need to continue the investment programme which the Government had established in previous years, but also as a deliberate policy aimed at offsetting the drop in private investment, especially in the construction sector, so as to help to maintain a minimum level of economic activity and employment. At the same time, however, the authorities showed a certain propensity for large-scale projects—in electrification, transport and communications—which were not always characterized by their capacity to create jobs and which did not in all cases reflect an effort to optimize social benefits. Thus, an ambitious programme of electrification on the basis of hydroelectric power generation absorbed almost 30% of the capital budget, while the construction of the new port on the Pacific coast absorbed another 13%. On the other hand, the private corporation which had received a concession from the Government in 1980 to build and manage highways did not make any significant investments in 1981 because of difficulties in mobilizing external financing, in spite of the fact that it had undertaken to the State to guarantee such financing. A large amount of building was promoted, especially of schools and hospitals, and including the "San Juan de Dios" hospital in Guatemala City, at a total cost of over 55 million quetzales. Many of these buildings formed part of the reconstruction programme to make good the damage caused by the February 1976 earthquake.

The Government financed all this expenditure through an increasing flow of credit. According to the budget of income and expenditure approved for 1981, approximately one-third of this financing came from bilateral and multilateral external official sources. The loans obtained were not disbursed at the planned rate, however, while other projects which it had originally been expected to finance with external resources were finally financed with domestic resources. Thus, the Government used domestic financing to cover nearly 90% of the deficit, almost entirely through securities sold to the Central Bank.

Apart from the changes in the taxes on exports of coffee and cotton, the main fiscal policy measure taken during 1981 was connected with the agreement concluded by the Government with the International Monetary Fund. According to the letter of intent signed by the authorities responsible for the country's finances, a more prudent expenditure policy would be followed than in recent years and some measures would be taken to improve tax collection through stricter tax administration. At the same time, the Government declared its intention to raise the degree of utilization of external financing for public investment projects, as a way of keeping the expansion of domestic monetary assets within limits compatible with the level of economic activity.

Finally, although no detailed figures were available on the rest of the public sector, it may be assumed that since the central government accounts for approximately 65% of the current income and expenditure of the public sector as a whole, the trends and amounts described above would probably not be significantly changed in the light of a global analysis of the financial situation of the public sector.

(b) *Monetary policy*

Two facts attract attention when analysing the monetary picture in 1981. The first one is the sharp fall in the international monetary reserves as a result of the series of phenomena described in preceding pages, and the second is the big expansion in domestic credit, destined to a large extent to the public sector. In other words, the reduction in external monetization was replaced by an expansion in domestic liquidity; the factors of expansion as a whole evolved at almost the same rate as the growth of the gross domestic product.

As already noted, the gross monetary reserves of Guatemala went down from US\$ 526 million at the end of 1980 to US\$ 345 million at the end of 1981. At the same time, the external liabilities grew substantially—from US\$ 175 to US\$ 443 million—due to the short-term official

and compensatory credits obtained in 1981, so that the loss of net reserves during the year came to almost US\$ 450 million and the net reserve position at the end of the year showed a deficit of US\$ 98 million (see table 15).

The counterpart—and to some extent the reason—of this phenomenon of monetary contraction was a relatively liberal credit policy, at least as regards financing of the public sector. Credit activity as a whole grew by 36% with respect to the preceding year: i.e., three and a half times more than the expansion of the gross domestic product at current prices. To a large extent, this policy was aimed at financing the activities of the central government, for the rest of the public sector was a net creditor of the system: that is to say, its deposits exceeded its level of indebtedness. Thus, for the second year running there were spectacular increases in the amount of credit granted by the consolidated banking system to the public sector, to such an extent that the latter's relative share in total credit activity rose from a little under 6% in 1978 to almost 21% in 1980 and nearly 35% in 1981. The Banco de Guatemala provided some 90% of this financing.

It may be assumed that this large-scale access by the public sector to domestic credit took away credit resources from the private sector. At all events, the expansion in credit activity to the latter sector was very moderate (12%), at a time when the private sector was encountering growing difficulty in gaining access to external credit. Nevertheless, the Banco de Guatemala took some measures to raise the level of liquidity of the banks in the system, both through its policy of advances and rediscounts,¹¹ and through the more flexible application of the compulsory reserve policy. Although the legal reserve was not changed during the year, the reserve coefficient went down slightly from 18.8% at the end of 1980 to 17.8% at the end of 1981.

In contrast with the rapid expansion of credit, the amount of resources procured by the intermediation system grew at only a moderate rate: demand deposits rose by less than 2%, and term deposits increased by nearly 16%. Currency outside banks, for its part, increased by a little over 6%. The slow increase in deposits and in currency outside banks, together with the sharp contraction in external monetization, explain why, in spite of the strong expansion in domestic credit, the means of payment only increased by a little over 11%, which was a very similar rate to that of the expansion of the gross domestic product in nominal terms.

Table 15

GUATEMALA: MONETARY BALANCE

	Balance at end of year (millions of quetzales)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Money	624	692	709	738	10.9	2.5	4.1
Currency outside banks	323	364	379	403	12.7	4.1	6.3
Demand deposits	301	328	330	335	9.0	0.6	1.6
Factors of expansion	1 675	1 899	2 049	2 204	13.4	7.9	7.6
Foreign assets (net)	682	663	351	-98	-2.8	-47.1	
Domestic credit	993	1 236	1 698	2 302	24.5	37.4	35.6
Official entities	58	118	355	802	103.4	200.8	125.9
Private sector	935	1 118	1 343	1 500	19.6	20.1	11.6
Factors of absorption	1 051	1 207	1 340	1 466	14.8	11.0	9.4
Quasi-money (savings and time deposits)	850	927	1 088	1 260	9.1	17.4	15.8
Other items (net)	201	280	252	206	39.3	-10.0	-18.3

Source: ECLA, on the basis of official data.

^aPreliminary figures.

¹¹This was applied, for example, in order to promote the construction of housing and to give credit support to certain export and food crops.

Obviously, the policy followed by the monetary authorities was only viable as long as international monetary reserves were available. As these were depleted, it became necessary to seek access to external financing and to review the expansive policy followed with regard to public expenditure and credit. Thus, it was decided, within the framework of an agreement with the International Monetary Fund, to follow a more prudent policy in these matters as from 1982, with drawing of compensatory and regular credits to the value of the equivalent of US\$ 110 million.¹²

At the same time, it was agreed to reduce the gap between the interest rates in force in Guatemala and those prevailing in international financial markets, with the aim of encouraging deposits within the country, discouraging the flight of capital, and generally improving the level of competitiveness of the domestic intermediation system with external sources of financing. Thus, at the beginning of the last quarter in the year the legal ceiling for interest on loans was raised from 11% to 15%, and it was assumed that likewise the rates of interest on deposits would rise by up to 4 percentage points. This new policy of interest rates was applied only gradually, however, in proportion as existing loans were renewed or new ones were granted, and at the end of the year the interest rates on deposits were still at their previous level.

¹²Specifically, a total of 19.1 million SDR units was drawn on the first tranche of the stand-by loan and a total of 76.5 million SDR units was drawn under the compensatory financing facility.

GUYANA

1. Recent economic trends: Introduction and summary

The Guyana economy continued to deteriorate in 1981. Preliminary estimates show that in real terms the GDP fell by around 20%. This followed continuous negative growth since 1976 with the exception of 1980 (when there was a 1% increase in real terms). The economy also suffered from a 22% rate of inflation (see table 1).

1976 with the exception of 1980 (when there was a 1% increase in real terms) (see table 1).

The physical output of the key foreign exchange earning sectors was far below the projected targets, and this situation was compounded by the prevailing low world prices for sugar and bauxite, unsure markets and high internal costs of production. These factors resulted in the lower levels of export earnings when compared with 1980. During the year, the country suffered from an acute shortage of hard currency to purchase raw materials and other supplies for local industries, resulting in overseas suppliers insisting that transactions be on a cash basis, thereby effectively shutting off credit to local importers. As a result of its foreign exchange difficulties, a 3-year Extended Fund Facility (EFF) arrangement was reached with the IMF to grant an increase of 50 million SDR units early in 1981. This grant was conditioned on an increase in local taxes and a reduction in government spending, and the Fund also recommended a devaluation of the currency. This was accordingly devalued by 18% as part of the effort to correct the country's external imbalance, but this action was insufficient to correct the worsening economic situation and a request for a further increase in SDR grants was denied. This led to the Government having to borrow heavily from the domestic banking system, and at the end of 1981 the public debt was an estimated G\$ 3.1 billion,¹ with the net foreign assets of the banking system standing at minus G\$ 483 million.

Real income accruing to the agricultural and mining sectors was estimated to be respectively 21% and 63% lower than in 1980. The agricultural sector was affected by the considerably lower world prices for sugar and the rising cost of producing the commodity. Added to the difficulties in sugar, the rice industry faced an internal problem when local rice farmers refused to harvest the grain because of the low prices being offered for the crop. This situation was checked by year-end, however, preventing a further decline in its real earnings for 1981. In the mining sector, the advent of a world recession, heavy foreign competition for existing markets, substitute materials, lower productivity levels and the soft international markets for aluminium resulted in lower volumes of production and reduced earnings for the sector.

In 1981 it was evident that the economy continued to feel the effects of having to depend on the narrow base of traditional exports supported by a small group of resources which have been showing declining and unstable levels of output over the years. This has had severe effects on the volume and value of exports. There continued to be heavy demand for imported goods, mainly food and fuel. The failure of the key sectors to increase the level of export earnings has led to an acute shortage of foreign exchange, making it impossible for the Government to settle overdue payments on international transactions, resulting in commercial creditors remaining unpaid. However, in addition to the IMF's increase in its SDR allocation, some relief came from the G\$ 170 million foreign exchange support obtained from the Caribbean Aid Council through the Trinidad and Tobago oil facility and a US\$ 23 million medium-term structural adjustment balance-of-payments support scheme with the World Bank. Even so, however, the deficits on merchandise

¹The exchange rate of the Guyana dollar was fixed at US\$ 1.00 = G\$ 3.00 as from June 1981.

trade and services widened in 1981, with the net position being a continued worsening of the balance-of-payments current account deficit, while the overall balance also recorded a deficit of US\$ 10 million.

The central government financial operations continued to deteriorate in 1981 despite the 24% increase in current revenue, since the increasing current and capital expenditure contributed to the net fiscal deficit of G\$ 700 million. Nevertheless, increases in both current and capital expenditure were considerably slower than in 1980. More than half of the deficit financing came from external sources, with the remainder being realized through the issuing of short-term Treasury bills.

It was expected that as a result of the deteriorating foreign exchange position there would have to be cuts in public expenditure, higher taxes and rising prices, large-scale public sector layoffs, major cuts in essential imports with severe curbs on hard currency outflows and an overall reduction in subsidies. Added to this serious position it may be necessary to devalue again, since the initial devaluation was made against an appreciating US dollar. It is apparent that there is a need to re-assess the economy and think about structural changes, all the more so because of the deterioration in the level of foreign reserves and the increasing unemployment caused by the downturn of activity in the principal sectors.

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
Basic economic indicators							
Gross domestic product at factor cost (millions of Guyana dollars at current prices)	1 098	1 038	1 019	1 136	1 179	1 336	1 350
Population (thousands)	762	771	779	785	788	792	796
Per capita gross domestic product (Guyana dollars at current prices)	1 441	1 346	1 308	1 447	1 496	1 687	1 696
Growth rates							
Short-run economic indicators							
Gross domestic product at current prices	26.2	-5.5	-1.8	11.5	3.8	13.3	1.0
Per capita gross domestic product at current prices	24.1	-6.6	-2.8	10.6	3.4	12.8	0.5
Current value of exports of goods	41.1	-17.3	-6.1	13.4	-1.0	32.8	-11.0
Current value of imports of goods	43.0	14.4	13.3	-11.7	14.1	33.8	11.0
Consumer prices index							
Annual average variation (all Guyana)	7.9	8.7	10.8	19.5	15.6	12.8	22.1
Money	60.6	7.4	28.9	5.7	-4.4	13.7	9.0
Current income of government	48.6	20.9	-11.9	2.8	8.1	13.9	24.0
Total expenditure of government	69.3	23.0	-21.6	3.9	33.6	39.3	14.7
Fiscal deficit/total expenditure of government (percentage)	19.7	49.6	37.4	38.0	49.8	59.0	55.6
Millions of US dollars							
External sector							
Trade balance (goods and services)	0.4	-113	-72	0.1	-49	-84	-159
Balance on current account	-23	-141	-97	-23	-83	-126	-214
Variation in net international reserves (- sign indicates an increase)	-46	91	12	-15	54	37	7
Public external debt	291	363	398	428	468	519	620

Source: CEPAL, on the basis of official data.

^aPreliminary figures.

Table 2

GUYANA: TOTAL SUPPLY AND DEMAND

	Millions of current Guyana dollars				Percentage breakdown		Growth rates			
	1978	1979	1980	1981 ^a	1977	1981 ^a	1978	1979	1980	1981 ^a
Total supply	2 118	2 333	2 778	3 160	167.0	197.5	2.1	10.2	19.1	13.8
Gross domestic product at market prices	1 268	1 326	1 508	1 600	100.0	100.0	12.7	4.6	13.7	6.1
Imports of goods and services	850	1 007	1 270	1 560	67.0	97.5	-10.4	18.5	26.1	22.8
Total demand	2 118	2 333	2 778	3 160	167.0	197.5	2.1	10.2	19.1	13.8
Domestic demand	1 268	1 463	1 649	1 966	100.0	122.9	-2.5	15.4	12.7	19.2
Gross fixed investment	242	325	404	491	19.1	30.7	-16.6	34.3	24.3	21.5
Public	195	260	334	411	15.4	25.7	-15.2	33.3	28.5	23.1
Private	47	65	70	80	3.7	5.0	-21.7	38.3	7.7	14.3
Change in inventory	18	86	45	60	1.4	3.8	-51.4	377.8	-47.7	33.3
Total consumption	1 008	1 052	1 200	1 415	79.5	88.4	3.6	4.4	14.1	17.9
Public	296	348	436	485	23.3	30.3	2.1	17.6	25.3	11.2
Private	712	704	764	930	56.1	58.1	4.2	-1.1	8.5	21.7
Exports of goods and services	794	797	1 046	1 033	62.6	64.6	12.3	0.4	31.2	-1.2
Net factor income payments	56	73	83	161	4.4	10.1	-16.4	30.4	13.7	94.0

Source: Statistical Bureau, Ministry of Economic Development, Guyana.

^aPreliminary figures.

2. Trends in economic activity

(a) *Global supply and demand trends*

According to estimates given by the Statistical Bureau, global supply at current prices increased by 14% in 1981 as compared with a 19% increase in the previous year. Imports of goods and services mainly led this increase, since they grew by 23%, while the GDP rose by 6% (see table 2).

With respect to global demand, domestic demand increased by 19% as against a 13% increase in 1980. Gross fixed investment rose by about 22%, mainly reflecting the fact that the public sector investment increased very rapidly (23%). Total consumption, whose contribution to the GDP was 88% in 1981, showed an 18% increase, while exports of goods and services decreased by about 1%.

(b) *Growth of the main sectors*

(i) *Introduction.* Total domestic production in 1981, at current prices, rose by 1% over the 1980 level, but since there was a 22% inflation rate, this performance actually reflected the serious continued downturn in economic activity. When consideration is given to the higher prices of factors contributing towards the overall production, economic growth in real terms was estimated to be about -20% in 1981. The 11% decline in the current value of exports of goods and the failure of the traditional foreign exchange earning sectors of the economy—agriculture and mining—to achieve better levels of performance in 1981 contributed towards these disappointing results.

Whereas the current value of output in the agricultural sector declined by 4% in 1981, the decline in real terms was even greater (about 21%). This substantial movement resulted from the decline in earnings from the very important sugar subsector. Earnings accruing to the mining and quarrying sector decreased rapidly in 1981 due to low production, the effects of the current world recession and strong foreign competition for existing markets. The disastrous performance of the sector was evident in lower volumes and values of exports than in previous years. Indeed, the

current value of export earnings fell some 54% from 1980, with the value in real terms decreasing by 63%. As a consequence of these developments, the contributions of the mining and quarrying sectors to the total GDP fell considerably, accounting for 7% of the current GDP respectively — well below the 1980 levels. Despite the disappointing performance of the leading sectors of the economy, present current value estimates indicate good performances in the manufacturing and service sectors. Government and other service sectors contributed almost 30% of the total current GDP, while the manufacturing sector accounted for 15% and the construction share of the GDP was 8%. Activity in other manufacturing sectors (except sugar and rice) resulted in a 45.6% increase, and represented an 11.1% contribution to GDP at current factor cost (see table 3).

(ii) *Agriculture.* Current earnings in agriculture, while amounting to over G\$ 300 million in 1981, were about 4% lower than in 1980, since although all other major agricultural subsector showed considerable improvements in earnings during the period under review, the value of output of the sugar subsector declined by 19%. Together, sugar, rice and livestock contributed 69% of agriculture's earnings and 15% of the total GDP at current prices.

The sugar industry's physical output performance improved appreciably during the year in spite of labour shortages, work stoppages, indiscriminate burning of cane, and the lower yielding

Table 3

GUYANA: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of Guyana dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Agriculture	256.6	263.5	312.0	300.0	19.3	22.3	2.7	18.4	-3.8
Sugar	122.0	123.0	149.0	120.0	9.2	8.9	0.8	21.1	-19.5
Rice	41.0	34.0	41.0	43.0	2.8	3.2	-17.1	20.6	4.9
Other crops	38.6	42.0	48.0	54.0	...	4.0	8.8	14.3	12.5
Livestock	30.5	37.0	41.5	44.0	...	3.3	21.3	12.2	6.0
Forestry	11.0	12.0	15.5	19.0	...	1.4	9.1	29.2	26.7
Fishing	13.5	15.5	17.0	20.0	...	1.5	14.8	9.7	17.7
Mining and quarrying	178.5	169.5	221.0	101.0	20.4	7.5	-5.0	30.4	-54.3
Bauxite/alumina	165.0	159.0	210.0	85.0	...	6.3	-3.6	32.1	-59.5
Other	13.5	10.5	11.0	16.0	...	1.2	-22.2	4.8	45.4
Manufacturing and processing	137.5	146.0	162.0	201.0	12.2	14.9	6.2	11.0	24.1
Sugar milling	43.0	43.0	49.0	40.0	3.2	3.0	0.0	14.0	-18.4
Rice milling	8.5	6.0	10.0	11.0	0.8	0.8	-29.4	66.7	10.0
Other	86.0	97.0	103.0	150.0	8.2	11.1	12.8	6.2	45.6
Engineering and construction	75.0	85.0	95.0	110.0	7.9	8.1	13.3	11.8	15.8
Distribution	104.0	117.0	115.0	145.0	11.5	10.7	12.5	-1.7	26.1
Transport and communications	65.0	72.0	75.0	90.0	5.9	6.7	10.8	4.2	20.0
Government	230.0	234.0	250.0	276.0	13.2	20.4	1.7	6.8	10.4
Other services	89.0	92.0	106.0	127.0	9.6	9.4	3.4	15.2	19.8
Rent	17.0	17.0	18.0	23.0	...	1.7	0.0	5.9	27.8
Financial services	44.0	45.0	54.0	64.0	...	4.7	2.3	30.0	18.5
Other services	28.0	30.0	34.0	40.0	...	3.0	7.1	13.3	17.6
Total GDP	1 135.6	1 179.0	1 336.0	1 350.0	100.0	100.0	3.8	13.3	1.0

Source: Statistical Bureau, Ministry of Economic Development, Guyana.

^aPreliminary figures.

varieties of cane presently harvested. The average ratio of tons of cane per ton of sugar was about 14 to 1. Although the actual current value of output is estimated to have declined by about 20% in 1981 because of falling sugar prices, the industry continued to be a major contributor to the national economy, accounting for some 9% of total GDP. Sugar-cane output rose some 26% to 4 128 000 in 1981, the third highest in the last decade (see table 4). This increase in production came as a result of a variety of improvements implemented in the industry, such as more controlled harvesting and planting techniques through improved drainage and tillage and planting programmes. Nevertheless, the increase in production did not result in the anticipated higher earnings because of a number of extraneous factors, such as the lower external prices for the commodity (G\$ 750 per ton), contrasting with the increasing local cost of production (more than G\$ 1 200). This has resulted in a substantial loss of earnings to the industry.

On the other hand, earnings from rice (paddy) were estimated to have increased by about 5% in 1981 in spite of a 2% drop in physical output. The production of rice during the early part of the year was hampered by the rice farmers' refusal to harvest the commodity for a return which they considered unreasonable. The Government subsequently offered to increase prices to offset incurred production costs, but nevertheless rice production up to the end of the year fell to about 169 000 tons. During the year, the industry was plagued with the problem of a shortage of foreign exchange, making it difficult for farmers to obtain tractors and threshers/harvesters and necessary spares for repairing and maintaining equipment and plant.

In contrast, the performance of the other agricultural subsectors continued to improve, resulting in an increase in their current value of output by about 12% over the 1980 level, so that they accounted for almost 46% of the total agricultural GDP. Earnings of non-traditional export crops, such as root crops, rose 16% in 1981, mainly due to the Government's continued drive towards self-sufficiency in food, with the aim of reducing the high cost of food imports. Indications are that there was a drop in the livestock population and that production of meat, dairy products

Table 4
GUYANA: INDICATORS OF AGRICULTURAL PRODUCTION
(Tonnes)

	1977	1978	1979 ^a	1980 ^a	1981 ^b	Growth rates			
						1978	1979	1980	1981
Sugar cane ^c	3 301	4 042	3 821 ^b	3 262 ^b	4 128	22.5	-5.5	-14.6	26.5
Rice (milled) ^c	213.4	185	144	169	165	-13.3	-22.2	17.4	-2.4
Root crops ^c	24.5	28.2	28.2	29.0	...	15.1	-	22.8	...
Plantains ^c	19.5	21.3	21.3	22.0	...	9.2	-	3.3	...
Coconuts ^d	25	25	26	29	...	-	4.0	11.5	...
Citrus ^e	15.4	15.4	10.3	10.7	...	-	-33.1	3.9	...
Bananas ^c	5.0	6.5	6.5	6.8	...	0.0	-	4.6	...
Corn ^e	3 268	2 086	1 670	1 419	...	6.2	-19.9	-15.0	...
Tomatoes ^e	2 495	2 856	2 716	2 812	...	14.5	-4.9	3.5	...
Pineapples ^e	1 905	1 632	1 797	1 860	...	-14.3	10.1	3.5	...
Beef ^e	3 130	1 860	1 770	1 633	...	0.6	-4.8	-7.7	...
Pigs, sheep, goats ^e	2 359	1 724	1 815	1 417	...	-26.9	5.3	-21.9	...
Poultry ^e	7 393	10 387	10 571	10 433	...	40.5	1.8	-1.3	...

Source: Statistical Bureau, Ministry of Economic Development, Guyana.

^aPreliminary figures.

^bEstimates.

^cThousands of tons.

^dMillions.

^eTons.

and poultry in 1981 continued to decline due to shortages of animal feed and hatching eggs and the dwindling herds. As regards the forestry subsector, there was a rapid growth of about 27% in its current value GDP in 1981, following the 29% growth reported in 1980. This good performance came as a result of a better transportation system from the interior, and improved sawmills and related techniques. Added to this, more use is being made of wood waste and renewed efforts are being made in charcoal production, while further encouragement is being given to the use of timber in the building industry, especially for housing.

(iii) *Mining and quarrying.* The current value of output in the mining and quarrying sector decreased by 54%, so that it generated only 7% of the GDP in 1981. However, the real value of output was estimated to have declined by more than 63%. This decrease resulted from the reduced output of the bauxite industry due to the weak foreign markets and persistent labour, technical and management problems. Whereas earnings from bauxite and alumina fell considerably, those from other mining and quarrying activities, mainly gold and diamonds, rose appreciably during this period. Nevertheless, the mining sector has failed to achieve the targets set.

Overall production in the bauxite industry fell some 9% in 1981, continuing the unstable pattern of production since 1977; output for 1980 rose only marginally (see table 5). On recent times the low level of demand and low world prices for bauxite products have resulted in relatively lower levels of production. All areas of bauxite production declined substantially with the exception of dried bauxite: calcined bauxite output went down 15%, alumina fell some 19%, the output of cement-grade bauxite fell by 47%, and there was little or no production of alumina hydrate during the year. The persistent shortage of foreign exchange to purchase the much-needed inputs, spare parts and fuel, low prices on the international market, and the soft world market for aluminium have pushed the estimated loss of earnings of the sector into the region of G\$ 192 million. This represents about 15% of the country's import expenditure and a considerable loss of foreign exchange earnings.

The poor performance over the years has caused a shift in the supply side of the refractory products industry, with Guyana being unable to satisfy the constant market demand for calcined bauxite, a technically preferred material for making heat-resistant bricks and linings for kilns and furnaces. Competitors have made significant inroads into the market, in most cases supplying an inferior ore which has caused many users to adapt their technology to handle this new grade of ore. Added to the new suppliers, the industry is faced with the problems raised by the introduction of alternative refractory materials, one of which is a non-bauxite refractory substitute called 'Andalusite', a South African metal ore. The Guyana bauxite industry has faced problems due to the

Table 5

GUYANA: INDICATORS OF MINING PRODUCTION

	1977	1978	1979	1980	1981 ^a	Growth rates		
						1979	1980	1981
Dried bauxite ^b	893	1 002	1 066	970	969	6.4	-9.0	-0.1
Calcined bauxite ^b	720	579	577	601	513	-0.3	4.2	-14.6
Alumina ^b	260	230	139	211	170	-39.6	51.8	-19.4
Alumina hydrate ^b	17	10	23	4	-	130.0	-82.6	-
Aluminous cement grade bauxite ^b	-	36	9	51	27	-75.0	466.7	-47.1
Gold ^c	12	15	11	11	19	-26.7	-	72.7
Diamonds ^d	17	17	16	10	9	-5.9	-37.5	-10.0

Source: Statistical Bureau, Ministry of Economic Development, Guyana.

^a Preliminary figures.

^b Thousand tons.

^c Thousand ounces.

^d Thousand carats.

lower price offered by its competitors for the traditional refractory ore, and also the lower prices of the substitutes. Though the Guyana ore is the technically preferred material, its share of the world market for calcined bauxite fell from a near-monopoly supply of 85% to less than 57% in 1981.

The industry has also suffered from loss of overseas demand for its other bauxite products, due to poor production resulting from technical difficulties and manpower and management problems. The global recession has caused the demand for aluminium to drop sharply, resulting in much reduced demand for primary inputs, while indicators have shown a marked increase in the recycling of aluminium scrap, mainly in the United States. The depressed price for aluminium has so far resulted in the closure of several smelter plants around the world and has caused a general cutback in bauxite production in other producing countries. The situation has now reached the point where 'futures' buyers have decided to cancel orders and pay the monetary penalties thus incurred rather than accept delivery.

Whereas the bauxite industry had a poor year in 1981, the reported production of gold rose by almost 73% to 19 000 ounces. This has resulted from the setting up of the Gold Board, where all gold mined or found must be reported. However, it has been estimated that this figure is only 25% of what was actually extracted during the year. This figure does not necessarily mean that past production was low, but rather that it was not reported. It is noteworthy that over G\$ 3 million worth of mining equipment was imported without the necessary release of foreign exchange during 1981. On the other hand, there was a slight drop in the reported production of diamonds.

During 1981 the Government of Guyana continued its exploration for other materials and ores. There have been searches for uranium, molybdenum and other base metals, and prospection is continuing for new deposits of gold, diamonds and semi-precious stones. The country is shortly to receive a loan from the International Development Association (IDA) in order to continue its search for oil deposits. At present, the Home Oil Corporation is continuing its exploratory tests both in the interior and offshore.

(iv) *Manufacturing.* Despite reduced earnings from the sugar subsector, the current value of output from manufacturing and processing rose by 24% and accounted for almost 15% of the GDP in 1981. This resulted mainly from the increase in earnings from milled rice and other manufacturing subsectors. In real terms, however, there was a 7% decline.

Joint earnings from rice and sugar in 1981 fell by more than 14% following the 25% growth the year before, because although the value of output of milled rice rose 10%, that of sugar fell 18%. These two subsectors jointly contributed 25% of the sector's GDP for 1981. Earnings from all other forms of manufacturing rose by 46% compared with 1980. This indicates the greater role being played by the non-traditional manufacturing sectors.

The output of manufactured sugar recovered moderately to a production level of some 306 000 tons in 1981, an increase of 12% over 1980 (see table 6). On the other hand, the physical output of milled rice fell some 2% after showing signs of recovery the year before. The production of rice has been hampered by bad weather and the failure of the rice buying agencies to pay farmers more for the rice paddy, thus making it less profitable to produce the grain. This situation was being examined late in the year.

The current value of output in the other manufacturing subsectors showed an increase of 45% in 1981, despite falling physical production of most manufactured items. The devaluation of the currency had led to a moderate growth in exports, thus pushing up the actual size of the subsector's earnings.

Only soap and cigarettes experienced any growth in production during 1981, with increases of 17% and 6% to 2 279 tons and 602 million cigarettes respectively. The physical output of margarine fell by 17% to 2 370 tons in 1981 after record production of 2 847 tons in 1980. Production of edible oil, for its part, fell by some 1 259 tons in 1981, so that it was about 47% lower than the figure of 2 700 tons in 1980. The output of rum fell slightly after relatively good production in 1980, while the production of stockfeeds and flour continued to decline in 1981. Total output fell as a result of difficulties in obtaining much-needed inputs for the expansion of the

industrial sector. The lack of these imported resources, coupled with frequent electrical outages and lack of skilled technicians, contributed to the lower-than-expected levels of production. During the year, the country experienced an acute shortage of foreign exchange, making it difficult to pay for imported inputs, and foreign creditors curtailed the extension of credit to Guyanese importers and are now operating on a strictly cash basis. In another area, limited production continued in the textile industry and indicators suggest that there were improvements in the manufacture of gas stoves and refrigerators. An attempt has been made at assembling tractors for the local industry.

(v) *Energy.* This sector has remained the single most important constraint on the long-term development prospects of the country. The high cost of imported fuels and other raw materials have rendered most manufacturing concerns uneconomic and also affected the efficiency of other energy-based industries, such as electricity. The increase in fuel prices has adversely affected the local prices of petroleum products, which have more than doubled since 1977. In addition, the development of the major hydropower project in the Western part of the country and exploration for oil reserves have been disrupted by the unresolved border dispute with Venezuela.

In 1981, the National Energy Unit was established to manage the country's energy resources. This Unit monitors the progress of the energy conservation programme and contributes towards the efficient use of thermal energy. It also oversees petroleum exploration and development of renewable energy resources. During the year, much work was done in compiling an energy audit and studies were completed on conservation methods. Some of the national corporations made an effort to maximize energy efficiency and sought new methods to conserve energy. GUYSUCO is at present using bagasse for fuel and GUYMINE is looking into the use of a special kiln in order to maximize production efficiency. Other conservation methods include the development of biogas as a substitute for kerosene and LPG, and the use of wood waste in the manufacture of clay blocks, rice husks for steam generation, and solar driers for the rice industry.

Table 6
GUYANA: INDICATORS OF MANUFACTURING PRODUCTION

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981
Sugar ^b	246	330	303	274	306	34.1	-8.2	-9.6	11.7
Edible oil ^c	1 555	1 409	1 159	2 700	1 441	-9.4	-17.7	133.0	-46.6
Margarine ^d	2 033	1 937	1 983	2 841	2 370	-4.7	2.4	43.3	-16.6
Flour ^b	35	36	40	36	34	2.9	11.1	-10.0	-5.6
Molasses ^e	90	117	63	-	-	30.0	-53.8	-	-
Stock feeds ^b	37	50	57	53	52	35.1	14.0	-7.0	-1.9
Rum ^f	3 249	3 380	3 546	3 997	3 945	4.0	4.9	12.7	-1.3
Cigarettes ^g	558	519	549	567	602	-7.0	5.8	3.3	6.2
Soap ^h	1 916	1 653	1 569	1 954	2 279	-13.7	-5.1	24.5	16.6
Paints ⁱ	1 718	1 473	1 200	522 ^j	...	-14.3	-18.5	-56.5	...
Timber ^k	176	169	154	140	...	4.0	-8.9	-9.1	...

Source: Statistical Bureau, Ministry of Economic Development, Guyana.

^a Preliminary figures.

^b Thousand tons.

^c Thousand litres.

^d Tons.

^e Millions litres.

^f Thousand gallons.

^g Millions.

^h February-December 1980.

ⁱ Thousand cubic meters.

Table 7

GUYANA: VALUE OF IMPORTS OF SELECTED HYDROCARBONS

(Thousands of Guyana dollars)

Commodity	1977	1978	1979	1980	1981 ^a
Crude petroleum	-	-	-	-	-
Natural gas liquids	-	-	-	-	-
Natural gas	-	-	-	-	-
Aviation gasoline	1 650	1 000	1 860	2 129	3 302
Motor gasoline	13 610	13 700	25 500	36 387	44 029
Kerosene	6 670	7 100	13 500	18 358	22 902
Jet fuel	-	-	-	-	-
Diesel oil ^b	44 250	41 800	64 760	114 411	127 898
Liquefied petroleum gas	2 930	3 800	4 050	7 772	9 079
Other Gases ^c	-	-	-	-	-
Bunker 'C' fuel oil	80 310	88 300	84 890	134 887	169 404
Subtotal	149 420	155 700	194 560	313 944	376 614
Total (fuels and lubricants)	160 400	169 900	230 000	331 159	388 758

Source: Energy Unit, Ministry of Energy and Natural Resources, Guyana.

^aPreliminary figures.^bIncludes gas oil.^cLiquid butane and propane.

Evidently, the local price of fuel has fully reflected the increased import cost and has encouraged the Government to look for oil in its own territory, with concessions given out for both inland and offshore explorations (see table 7).

During the year there continued to be frequent periods of power failures. This was partly due to the lack of proper maintenance schedules and the continued use of unreliable equipment; evidently, the shortage of adequate foreign exchange affected the purchase of new equipment and other materials needed for the efficient operation of plant and machinery, while fuel was also in short supply.

In addition, the electricity corporation suffered high levels of distribution losses and found it difficult to collect arrears of rates, contributing towards the weakening of its finances for future development (see table 8).

(vi) *Other sectors.* The expansion in the Government's capital expenditure programme, together with the rising level of imports has generated greater demand for basic services. The services sector thus continued its favourable growth, accounting for over 47% of total GDP at current prices in 1981. Preliminary estimates indicate a 20% increase in the contribution of the distributive trades to the GDP in 1981 after a 2% decline in 1980, and increases of 20% and 8% respectively in the transport and financial services sectors. Earnings from rent went up some 28% during 1981. Government investment policy continued to be geared towards the improvement and expansion of both the industrial and agricultural sectors, and it was expected to achieve improved efficiency and self-sufficiency. At the same time, despite the limited resources available and taking into account the inflationary process, these services have had some effect on construction activities, where earnings rose 16%. These rates of increase in terms of current prices must be interpreted, however, against the background of the combined effects of the devaluation of the currency and the ongoing inflation.

3. The external sector

(a) Merchandise trade

(i) *Exports.* The current value of exports of goods declined by 11% as against a 33% rise in the previous year. This deceleration was mainly due to heavy reductions in the volume of the traditional items exported.

The bauxite industry, which had performed well in 1980, suffered major setbacks in 1981 which resulted in a lower volume and value of exports. The total volume of bauxite and its by-products exported is estimated to have declined considerably in 1981, with its value falling by almost 11%. The decline in demand for alumina and aluminium on the international markets and the introduction of substitute refractory materials contributed to the drop in production and exports of dried and calcined bauxite. The volume of sugar exported was expected to be at about the same level as in 1980, with export earnings rising slightly to G\$ 309 million, but this forecasted growth did not materialize, because of a lower volume exported and the declining price of the commodity on the world market. On the other hand, the reverse occurred in respect of rice. Despite lower volumes exported, the export earnings have kept on rising: since 1978 the volume of exports has been on the decline, falling from 107 000 tons in 1978 to 72 000 tons up to November 1981, yet earnings rose from G\$ 96 million to G\$ 110 million in the same 4-year period (see table 9).

The indicators point to a noteworthy improvement in the volume and value of non-traditional exports. Rum exports were expected to be higher than the 2 800 000 proof gallons exported in 1980 and molasses exports above the 70 000 tons exported in that year. However, the quantity of timber exported was expected to show a marked decline in 1981, after two years of improved performances, due to increased local consumption.

(ii) *Imports.* The value of total imports is estimated to have grown by over 10% in 1981, representing about a 7% increase in real terms. The price of fuel imports weighed heavily in the import bill of the country, accounting for almost 31% of the total. Total payments for raw materials and intermediate goods showed a 26% rise over the 1980 figures, although this rise was somewhat slower than that experienced in the previous year. The value of fuel imports amounted to approximately G\$ 389 million in 1981. At the same time, consumer goods, including food, rose by almost 20%, reversing the trend of 1980, when a decline of 12% compared with 1979 was reported. Although the rate of growth of capital goods imports was only 9%, their share was about 17% of total imports, making them the second biggest category (see table 10).

Preliminary information on trade with CARICOM countries indicates that most of Guyana's imports continue to originate in Trinidad and Tobago. During the period January-June 1981, more than G\$ 218 million was imported and approximately G\$ 30 million exported to Trinidad and Tobago. The trade with Guyana's other CARICOM neighbours continues to remain small in relation to total trade (see table 11).

Table 8
GUYANA: ELECTRICITY GENERATION AND CONSUMPTION^{ab}
(Hundreds of thousands of kWh)

	1976	1977	1978	1979	1980
Total electricity generated	91.7	430.7	404.9	407.0	419.1
Total consumed	353.4	386.8	361.6	351.5	365.6
Residential (households)	82.9	86.8	82.0	94.5	95.4
Commercial	260.6	288.7	271.2	245.4	261.1
Industrial					
Other	10.0	11.3	8.4	11.6	9.1
Transmission losses	38.3	43.0	43.3	55.5	53.5

Source: Statistical Bureau, Ministry of Economic Development, Georgetown, Guyana.

^aData exclude sugar estates and small private plants.

^bTotal electricity generated represents production of Guyana Electric Corporation, Guybau, Bermin and New Amsterdam.

Table 9

GUYANA: VALUE AND VOLUME OF SELECTED EXPORT PRODUCTS

(Millions of Guyana dollars and thousand tons)

	1978	1979	1980 ^a	1981 ^{ab}	Growth rates		
					1979	1980 ^a	1981 ^{ab}
Total value of exports	750	743	993	972	-1.0	33.6	-2.1
Main traditional exports	659	635	875	847	-3.7	37.9	-3.2
Bauxite (dried/calclined)							
Value	250	274	368	428 ^c	9.4	34.3	-10.7 ^c
Volume	1 601	1 578	1 613	1 356	-1.4	0.6	...
Alumina and alumina hydrate							
Value	78	54	111	...	-31.1	107.4	...
Volume	251	146	230	145	-41.8	54.1	...
Sugar							
Value	235	226	308	309	-3.5	36.1	0.3
Volume	286	268	252	244	-6.3	-6.0	...
Rice							
Value	96	81	88	110	-15.8	8.4	25.6
Volume	107	86	81	72	-19.6	7.0	...
Main non-traditional exports	43	60	63	...	37.4	5.9	...
Rum							
Value	10	13	18	...	30.2	44.0	...
Volume ^d	1 847	2 103	2 713	2 802	13.9	29.0	...
Molasses							
Value	9	13	12	...	47.2	-8.4	...
Volume	124	95	55	69	-23.4	42.1	...
Timber							
Value	11	14	16	...	31.2	11.9	...
Volume ^{de}	36	49	59	37	36.1	20.4	...
Shrimp							
Value	12	18	9	...	41.9	-48.9	...
Volume ^f	765	746	...	...	-2.5	...	...
Diamonds							
Value	2	2	2	...	33.3	-	...
Volume ^g	11	11	...	...	-	...	...
Other exports and re-exports	48	49	55	...	1.3	12.8	...

Source: Statistical Bureau, Ministry of Economic Development and data supplied to CEPAL.

^a Preliminary figures.^b Volume figures refer to period January-November.^c Includes total value for bauxite, alumina and alumina hydrate.^d Thousand gallons.^e Thousand cubic meters.^f Tons.^g Thousand carats.

(iii) *Terms of trade and purchasing power of exports.* The terms-of-trade index increased by 3.5%, registering an improvement for the second year running. This was obtained because the export unit value increased by 7.6% while the import unit value rose by only 3.8% in 1981 (see table 12).

The value of exports of goods declined by 11%, mainly because of a 17% decline in volume. The index of the purchasing power of exports of goods registered 80.3 (1970 = 100), as against 96.1 in the previous year. This was the lowest level recorded since 1975, when it hit a peak of 134.

(b) *The current account position and its financing*

The current account position showed a further deterioration, with a deficit of more than US\$ 210 million as compared with US\$ 126 million in the previous year. This leap was mainly due to the large trade deficit, since the services account showed a slight decline in its deficit, as in the previous year. To finance the current account deficit official borrowing rose more than four times as compared with the previous year. However, the overall balance of payments registered a deficit of US\$ 10 million as against a deficit of US\$ 43 million in the preceding year (see table 13).

As a consequence of the falling purchasing power of the Guyana currency and the country's increasing external debts, the IMF increased the allocation of SDRs to Guyana by 50 million SDRs to a total of 150 million SDRs. This is about three times the normal drawing rights of Guyana. However, this was to be accompanied by increases in local taxes, a devaluation of the currency by 18% and a reduction in government spending. Nevertheless, economic activity continued to decline, with the public external debt rising to US\$ 620 million at the end of 1981. In October 1981 the IMF refused

Table 10

GUYANA: IMPORTS OF GOODS

	Millions of Guyana dollars					Growth rates			
	1977	1978	1979	1980 ^a	1981 ^b	1978	1979	1980	1981 ^b
Total goods imported	804.4	711.1	810.1	1 010.0	1 237.0	-11.6	13.9	24.7	22.5
Consumer goods	143.0	131.1	147.3	130.0	156.0	-8.3	12.4	-11.7	20.0
Food	65.0	62.6	62.6	60.1	64.4	-3.7	-	-4.0	7.2
Raw materials and intermediate goods	410.9	421.2	511.8	681.0	860.0	2.5	21.5	33.1	26.3
Capital goods	226.5	153.6	145.9	194.0	212.0	-32.2	-5.0	33.0	9.3
Miscellaneous	24.0	5.2	5.1	5.0	9.0	-78.3	-1.9	-2.0	80.0

Source: Statistical Bureau, Ministry of Economic Development, Guyana.

^aPreliminary figures.

^bPreliminary estimates.

Table 11

GUYANA: TRADE WITH MAJOR CARICOM COUNTRIES

(Millions of Guyana dollars)

	1977	1978	1979	1980	1980	1981 ^a
Imports (CIF)						
Total	206.4	205.6	266.9	239.3	153.2	226.2
Barbados	3.7	3.5	2.7	1.6	1.1	1.3
Jamaica	16.5	8.7	17.1	10.9	5.4	6.6
Trinidad and Tobago	183.9	189.7	245.3	226.1	146.3	217.7
Others	2.3	3.8	1.8	0.7	0.4	0.6
Domestic exports						
Total	100.0	113.8	113.1	135.6	57.9	71.2
Barbados	12.4	10.9	10.3	8.9	4.1	4.2
Jamaica	36.8	38.8	44.6	44.5	15.7	28.2
Trinidad and Tobago	52.2	52.2	44.5	62.5	29.5	29.8
Others	11.9	11.9	13.8	19.8	8.6	9.0

Source: Statistical Bureau, Ministry of Economic Planning and Finance, Guyana.

^aPreliminary figures.

Table 12

GUYANA: MAIN FOREIGN TRADE INDICATORS

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Growth rates												
Exports of goods, FOB												
Value	4.2	13.1	-1.6	-5.6	99.1	30.1	-20.5	-7.2	14.0	-1.0	32.8	-11.0
Volume	-9.2	4.1	-12.8	-7.1	6.2	3.3	-3.6	-16.3	17.7	-8.3	-1.9	-17.3
Unit value	14.8	8.7	12.9	1.6	87.4	25.9	-17.5	10.8	-3.2	8.0	35.5	7.6
Imports of goods, FOB												
Value	13.6	0.4	7.1	23.7	44.5	32.8	8.2	-13.3	-11.6	13.9	33.8	11.0
Volume	12.9	-3.2	2.5	8.5	2.7	7.9	6.6	-18.2	-15.8	2.6	4.0	6.9
Unit value	0.7	3.7	4.5	14.0	40.7	23.1	1.5	5.9	5.0	11.0	28.6	3.8
Terms of trade (FOB/CIF)	13.7	4.2	8.0	-10.3	33.9	3.6	-19.1	4.5	-7.8	-2.7	7.5	3.5
Indexes (1970 = 100)												
Terms of trade	100.0	104.2	112.6	101.0	135.2	140.1	113.3	118.4	109.2	106.3	114.3	118.3
Purchasing power of exports of goods	100.0	108.4	102.0	85.7	124.4	134.1	104.5	91.0	99.0	88.7	96.1	80.3
Purchasing power of exports of goods and services	100.0	106.8	102.2	87.4	119.1	125.2	97.1	85.6	93.1	83.5	89.6	75.5

Source: CEPAL, on the basis of official data.

^aPreliminary figures.

to grant a further increase in SDRs and this led to a severe shortfall in the availability of foreign exchange to pay debts incurred overseas by local importers, leading the overseas suppliers to discontinue any lines of credit made available to Guyana in the past and to sell goods to the country on a strictly cash basis. Debt payments at the end of 1981 stood at US\$ 104 million -about 60% of estimated revenue and 30% of total exports. the result at the end of 1981 was the Government's inability to meet payments to foreign creditors and to pay debt installments to commercial banks and other creditors.

The large current account gap was not sufficiently covered by the net capital inflow, so that about US\$ 7 million was drawn from the international reserves in 1981.

4. Prices and wages

The level of domestic prices, as measured by the All Items Guyana Price Index for urban areas, was about 22% higher than in 1980. This reflects the price increases of imported goods brought on by the recent devaluation of the Guyana currency. This considerable increase came after a somewhat slower rise in 1980. The categories which showed heavy increases clearly indicate the high cost of imported goods: there was a 36% increase in clothing prices, with food prices rising by about 28% in 1981. During the year there were acute shortages of rice and flour and the absence of these staple items forced up the prices of local substitutes. This position reversed the pattern of 1980, when price rises were held down by the Government's attempts to monitor the mark-up policy on some basic items. Apparently the overall lower levels of local production of basic items, the shortages of foreign credit for imports and the lower prices to farmers for rice have created an unusually short supply of basic commodities, resulting in higher prices. However, a sharp drop in the increase rate of the housing category was observed because of the Government's attempts to provide housing on a self-help basis with the use of local timber and also the relocation of families into the interior (see table 14).

The rising cost of imported fuel continued to be reflected in the level of domestic retail prices of petroleum products, even though the Government received assistance from the Caribbean Aid

Table 13

GUYANA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	146	162	162	156	292	370	293	276	314	311	409	367
Goods FOB	129	146	144	136	270	351	280	259	296	293	389	346
Services ^b	17	16	19	21	22	19	14	16	18	18	20	21
Transport and insurance	3	3	3	3	3	3	2	4	5	6	7	7
Travel	3	3	3	4	4	3	3	3	3	3	4	4
Imports of goods and services	151	152	167	208	280	370	406	347	314	360	494	526
Goods FOB	120	120	129	159	230	306	331	287	254	289	386	429
Services ^b	31	31	38	49	50	64	75	61	60	71	107	97
Transport and insurance	17	16	19	21	29	37	43	37	35	40	53	52
Travel	3	3	5	8	3	5	6	3	5	6	8	8
Trade balance (goods)	9	26	15	-24	40	46	-51	-27	42	4	2	-83
Commercial balance	-5	11	-5	-52	12	0	-113	-72	0	-49	-84	-159
Profits and interest	-16	-18	-11	-12	-19	-19	-24	-22	-23	-34	-43	-57
Profits	-14	-17	-7	-5	-13	-8	-4	-3	-1	0	0	0
Interest	-2	-1	-4	-7	-6	-12	-20	-19	-23	-34	-43	-57
Unrequited private transfer payments	-1	0	0	-1	-2	-4	-4	-4	0	0	1	2
Balance on current account	-22	-8	-15	-65	-10	-23	-141	-97	-23	-83	-126	-214
Unrequited official transfer payments	0	1	-1	0	-1	-2	-2	0	-7	0	-2	...
Long-term capital	17	16	15	29	43	97	45	41	33	28	80	...
Direct investment	9	-56	2	8	1	1	-26	-2	0	1	1	...
Portfolio investment	0	0	-1	-1	0	4	-1	-1	-2	3	3	...
Other long-term capital	8	72	14	21	42	93	72	44	34	24	77	...
Official sector ^c	8	65	7	10	28	65	78	24	23	20	86	...
Loans received	10	13	8	15	33	51	65	35	42	51	126	...
Amortization payments	-1	-2	-1	-4	-4	-4	-6	-6	-13	-24	-33	...
Commercial banks ^c	0	0	0	0	0	0	0	0	0	0	0	...
Loans received	0	0	0	0	0	0	0	0	0	0	0	...
Amortization payments	0	0	0	0	0	0	0	0	0	0	0	...
Other sectors ^c	0	8	7	11	13	28	-6	21	11	4	-10	...
Loans received	0	3	3	5	13	28	0	37	57	80	52	...
Amortization payments	0	0	0	0	0	0	-6	-11	-38	-80	-62	...
Basic balance	-5	10	-1	-36	32	73	-98	-56	3	-55	-48	...
Short-term capital	0	-3	0	-4	5	-4	-4	35	-8	6	6	...
Official sector	1	-1	-1	0	0	0	0	-2	-2	1	6	...
Commercial banks	1	0	0	-5	4	-3	1	4	4	0	-2	...
Other sectors	-2	-2	0	1	1	0	-5	33	-10	5	2	...
Errors and omissions	3	-5	9	14	9	-19	14	10	21	-8	0	204
Balance on capital account	20	9	23	39	56	73	53	86	39	26	84	204
Global balance ^d	-2	2	8	-26	46	50	-88	-11	16	-57	-43	-10
Total variation in reserves (- sign indicates an increase)	0	-3	-13	28	-48	-46	91	12	-15	54	37	7
Monetary gold	0	0	0	0	0	0	0	0	0	0	0	0
Special Drawing Rights	0	-2	-2	0	0	0	0	1	0	0	4	-1
IMF reserve position	-1	2	-1	1	-2	-4	6	0	0	0	0	0
Foreign exchange assets	1	-5	-8	23	-47	-35	67	3	-35	41	1	8
Other assets	0	0	0	0	-1	-2	-2	7	2	0	0	0
Use made of IMF credit	0	2	-2	5	1	-6	20	1	18	14	33	0

Source: CEPAL, on the basis of official information.

^a Preliminary figures.^b Services also include other official and private transactions.^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^d Includes counterpart items in respect of monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Council, through the Trinidad Oil Facility, in paying the increased oil prices (see table 15). In effect, the cost per imperial gallon of domestic kerosene rose some 20% in 1981, reflecting the 25% increase in the import cost of this item. Despite the 12% rise in the unit cost of diesel fuel imports, the domestic retail price rose by about 21%, although this was somewhat lower than the price increases over the last two years. The price of fuel oil rose moderately (5%) in 1981 in contrast with the large increases of 58% and 52% in 1980 and 1979 respectively. After two years of controlled prices the cost of LPG to the consumer rose by 29% to G\$ 79.32 per 100 pounds in 1981. The last price increase had been in 1979, when the price rose 58% to G\$ 63 per 100 pounds. The rise of about 21% in the cost of imports of motor gasoline in 1981 did not have the same effect on the internal price of the commodity, since both premium and regular gasoline prices rose by about 17% per gallon.

5. Monetary and fiscal policy

(a) *Monetary developments*

While the total monetary resources placed with the banking system moved up by G\$ 255 million or by some 24% in 1981, the 24% expansion in credit to G\$ 1 812 million was in excess of monetary growth and resulted in the running down of net foreign assets of the banking system by some 22% (see table 16).

Table 14

GUYANA: EVOLUTION OF THE URBAN CONSUMER PRICE INDEX (ALL GUYANA)

	Growth rates				
	1977	1978	1979	1980	1981
All items index	8.3	15.2	17.8	14.1	22.2
Food ^a	8.6	17.2	18.9	12.1	27.6
Clothing	14.4	29.5	30.1	16.7	36.1
Housing	1.7	1.1	7.4	12.3	7.5
Miscellaneous	11.4	18.8	17.0	19.6	12.8

Source: Statistical Bureau, Ministry of Economic Development, Guyana.

^aIncludes beverages and tobacco.

Table 15

GUYANA: RETAIL PRICES OF SELECTED PETROLEUM PRODUCTS^a

(Guyana cents per Imperial gallon)

Period	Gasoline		Kerosene	Diesel oil	Fuel	LPG, per 100 lb
	Regular	Premium				
1972	.79	.91	.51	.48	.30	...
1976	2.10	2.21	1.18	1.36	1.10	...
1977	2.50	2.71	1.26	1.56	1.19	...
1978	2.97	3.25	1.26	1.56	1.25	39.85
1979	4.30	4.56	2.28	2.89	1.90	63.00
1980	5.11	5.34	3.75	3.69	3.00	63.00
1981	5.97	6.23	4.51	4.48	3.15	79.32

Source: CEPAL, Energy Unit, Ministry of Energy and Natural Resources, Guyana.

^aPrices represent last price in the year in question.

The money supply expanded rapidly in 1981, increasing by about 17.3% over 1980. This growth in the banking system came mainly from placements by the private sector. The contribution of the public sector was expected to be less significant, since most public sector enterprises hold only working balances with the banking system. In June 1978 the Bank of Guyana introduced a policy whereby importers were given the option to hold bank resources in the form of deposits (arrears deposits) for the payment of commercial arrears pending the availability of foreign exchange reserves for the release of such payments. Their amount increased from G\$ 57 million in 1978 to about G\$ 75 million in 1980; no figure is yet available for 1981 but estimates indicate that the level could now be in excess of G\$ 100 million. The huge increase of G\$ 351 million in credit demands outpaced the level of resources placed with the banking system during 1981, and this excess of credit led to the continued decline of the net foreign assets.

The 18% devaluation in June 1981 has had far-reaching implications for the economy. One effect was the rapid rise in the level of interest rates, making it difficult to obtain bank credit; another was to encourage savings. The major element in the growth of the money supply was the continued growth in the amount of quasi-money. The holdings of time and savings deposits rose by G\$ 118 million or over 22% over the 1980 level, the main reason being that higher interest rates are now offered for such deposits. The interest rate on savings deposits rose from 3.5% in 1977 to 10.5% at the end of 1981, whereas the rate on fixed deposits grew from 5.5% in 1972 to 12.5% in 1981.

The growth rate of the money in circulation declined during 1981, when it expanded by just over 9%. In 1980 the working balances of currency and demand deposits increased by almost 14%. However, for both years the rate of increase has been considerably slower than that of quasi-money evidently due to the widening of the differential between the non-interest-bearing deposits and the quasi-money holdings. Within the category of 'narrow' money, the rate of increase of currency was about 11%, whereas the less influential demand deposits grew by 6%. The growth in these deposits indicates an improvement in national financial savings and a preference for holding bank deposits. Total deposits grew by 19% in 1981.

Table 16
GUYANA: MONETARY BALANCE

(Millions of Guyana dollars)

	Balance at end of					Growth rates		
	1977	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Money (M₁)	281	297	284	323	352	-4.4	13.7	9.0
Currency outside banks	143	156	148	167	186	-5.1	12.8	11.4
Demand deposits	138	141	136	156	166	-3.5	14.7	6.4
Factors of expansion	661	795	902	1 076	1 329	13.5	19.3	23.5
Foreign assets (net)	-109	-59	-182	-396	-483	-208.5	-117.6	-22.0
Domestic credit	771	853	1 084	1 461	1 812	27.1	34.8	24.0
Government (net)	534	603	743	1 029	1 163	23.2	38.5	11.9
Official entities	123	127	177	236	386	39.4	33.3	63.6
Private sector	113	123	164	197	263	33.3	20.1	33.5
Factors of absorption	380	501	620	751	977	23.8	21.1	30.1
Quasi-money	322	370	430	527	645	16.2	22.6	22.4
Savings deposits	196	234	263	308	384	12.4	17.1	24.7
Time deposits	126	136	167	219	261	22.8	31.1	19.2
Other items (net) ^b	58	131	190	224	332	45.0	17.9	48.2

Source: Bank of Guyana, Statistical Bulletin, December 1981.

^aPreliminary figures.

^bIncludes arrears deposits.

Table 17

GUYANA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of Guyana dollars)

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981
1. Current income	355.4	365.4	394.9	449.9	558.1	2.8	8.1	13.9	24.1
Tax revenue	301.1	313.9	334.1	382.9	480.3	4.3	6.4	14.6	25.4
Direct	156.5	161.6	166.4	195.9	216.7	3.3	3.0	17.7	10.6
Indirect	144.6	152.3	167.7	187.0	263.6	5.3	10.1	11.5	41.0
Other revenue	54.3	51.5	60.8	67.0	77.8	-5.2	18.1	10.2	16.1
2. Current expenditure	416.4	474.5	580.1	748.7	828.8	14.0	22.3	29.1	10.7
Wages and salaries	144.6	167.0	174.0	186.9	202.0	15.5	4.2	7.4	8.1
Other	271.8	307.5	406.1	561.8	626.8	13.1	32.1	38.3	11.6
3. Saving on current account (1 - 2)	-61.0	-109.1	-185.2	-298.8	-270.7	-78.9	-69.8	-61.3	9.4
4. Capital expenditure	150.9	114.8	207.0	348.0 ^c	428.6 ^c	-23.9	80.3	68.1	23.2
5. Total expenditure (2 + 4)	567.3	589.3	787.1	1 096.7	1 257.4	3.9	33.6	39.3	14.7
6. Fiscal deficit surplus (1 - 5)	-211.9	-223.9	-392.2	-646.8	-699.3	-5.7	-75.2	-64.9	-8.1

Source: Bank of Guyana Report, 1980, and data supplied to CEPAL.

^aPreliminary figures.^bIncludes amortization on public debt.^cBudget estimates.

Domestic credit extended by the banking system during 1981 rose by almost 24%, compared with 35% in 1980. The bulk of this credit was extended to the central government and amounted to G\$ 1 163 million or 12% more than in 1980; public corporations and other official bodies took up G\$ 386 million in 1981. The slower rate of growth of private credit due to increased government borrowing from the domestic banking system meant a reduction in the level of investment. Government borrowing from the domestic system, despite efforts to contain this continued dependence on the domestic banking system, has been mainly due to the shortfalls in public finances caused by the drop in net external borrowing below the targeted level.

(b) Fiscal developments

Preliminary estimates show a considerable growth of 24% in current income, while the level of current expenditure rose 11%, resulting in a deficit of about G\$ 271 million on the current account, which was somewhat smaller than that experienced in the previous year. The overall deficit, measured before allowing for external borrowing, was G\$ 770 million or about G\$ 110 million more than was anticipated, owing to the 15% increase in total expenditure to about G\$ 1 257 million (see table 17).

The substantial growth in current income was the result of the change in the tax structure reported last year, which gave rise to a 25% rise in tax revenue. At the end of 1981, indications are that there was an increase of G\$ 108 million in current income, derived mainly from higher receipts from income and consumption taxes, which rose 11% and 41% respectively. At the same time non-tax revenue increased some 16% from 1980 as a result of the G\$ 10 million growth in the Bank of Guyana surplus. Current expenditure increased by approximately 11% over the 1980 level, a rise of 8% in personal emoluments and increases in debt charges being the factors responsible for this considerable growth. Expenditure on debt servicing rose 12% in 1981,

representing 67% of current revenue and 38% of total export earnings. Interest payments were about G\$ 65 million and defence spending amounted to G\$ 43 million. The net result of these increases was the continued deterioration of the current account, which showed a deficit of G\$ 271 million in 1981, representing about 20% of the GDP at current prices.

Provisional estimates indicate growth of about 23% in capital expenditure in 1981, despite the need to cut government expenditure. This situation has worsened as a result of the low revenue accruing to the public sector corporations. Since almost 80% of the industries are State-owned, the Government must offer financial support. Income from these corporations was expected to fall from G\$ 263 million in 1980 to minus G\$ 54 million in 1981. This has forced the Government to borrow heavily from the domestic banking system and on the external markets. As a result of this, total expenditure was budgeted to increase by 15% in 1981, leaving a fiscal deficit of G\$ 700 million.

Because of the poor performance of the fiscal sector, the Government had to seek financial help from the IMF and other external sources, causing the external receipts to rise to an estimated G\$ 400 million at the end of 1981. At the same time borrowing from the internal markets was expected to amount to G\$ 294 million, pushing up the public debt to over G\$ 3.1 million. Total capital receipts in 1981 were expected to amount to G\$ 688 million, but the Government was forced to default on overseas payments and is now seeking revised payment arrangements with creditors (see table 18).

Table 18
GUYANA: GOVERNMENT CAPITAL RECEIPTS
(Millions of Guyana dollars)

	1977	1978	1979	1980	1981 ^a
Internal receipts	227.2	190.9	298.5	397.4	293.9
Capital	0.6	1.4	1.5	0.7	1.3
Long-term loans	50.5	68.9	88.7	121.8	120.0
Short-term loans	176.1	120.5	208.3	274.9	172.7
External receipts	63.5	107.2	151.3	217.7	394.0
Grants	2.1	0.7	15.8	12.4	12.0
Long-term loans ^b	61.4	106.5	135.5	205.2	382.0
Short-term loans	-	-	2.0	1.3	-
Total capital receipts	290.7	298.1	450.8	615.1	687.9

Source: Bank of Guyana Report, 1980.

^aPreliminary figures.

^bIncludes government debt in respect of nationalised debts.

HAITI

1. Recent economic trends: Introduction and summary

The Haitian economy went through a particularly adverse period during 1981¹ because of both external and internal factors. As in most of the countries of the region, the recession in the central countries had a negative effect on the performance of the economy, and Haiti was particularly vulnerable in this respect because of its high degree of openness to the exterior. The marked fall in the price of coffee—which is the country's main export product—was aggravated by a still larger drop in the amount of coffee exported,² which led to the worsening of the difficulties as regards external payments, public finances, and flows of money and credit.

At the domestic level, the poor performance turned in by agriculture—which is the main support of the Haitian economy—was due to cyclical factors which were aggravated by the consequences left by Hurricane Allen when it passed through the south and west of the country in August 1980. Thus, the direct and indirect effects of the bad agricultural season and the recession in the world economy led to a drop of 3% in the gross domestic product after three years of relatively satisfactory economic growth (around 5% per year). This meant a drop of 5.4% in the per capita gross domestic product, which fell to a similar level to that of 1978, thus wiping out the progress made in the two-year period 1979-1980 (see table 1 and figure 1).

The decline of nearly 19% in the terms of trade—which was due not only to the drop in the price of coffee but also to slumps in the prices of other export products—meant that the gross income went down by around 4.5%.

This unfavourable picture had been foreseen to some extent even before the beginning of the fiscal year 1980/1981, since because of the deterioration in the balance of payments registered at that time and the financial difficulties of the Government, practically zero growth of public investment was programmed for 1981. This contrasted with the great dynamism shown by this item over the last ten years. Private and foreign investment, for their part, still displayed some dynamism in 1981, but it was notably less than in previous years.

The global economic recession was reflected likewise in a generalized manner in activities at the sectoral level, except for the greater dynamism observed in electric power generation and the significant growth in the construction sector (although this growth was less than in previous years). The government sector and ownership of dwellings were the other two categories where some progress was registered. In contrast, the other sectors suffered contractions in real terms, some of them very substantial, such as the decline of 5% in agriculture and the drop of 46% suffered by the mining sector before the foreign enterprise responsible for running the main bauxite mine completely abandoned its operations.

The deterioration of the external accounts played a leading role in this context. In spite of the highly satisfactory performance achieved in 1980 as regards exports of goods and services, the loss of international reserves suffered that year provided a shaky foundation for developments in 1981. This was aggravated by the drop in export income and some possible flights of capital at the beginning of the year which led to a significant shortage of foreign exchange and even to the

¹Unless otherwise indicated, the period covered by this report is the Haitian fiscal year 1980/1981, which ran from 1 October 1980 to 30 September 1981.

²The average price of the coffee exported went down by 33% and the volume fell by 45%, so that the foreign exchange received for these exports diminished by 64%.

emergence of an unofficial parallel rate for the dollar, which is something that has rarely happened in Haiti.³

Against this background, negotiations were resumed with the International Monetary Fund with a view to reaching an agreement in the framework of the Expanded Facility. This involved some changes of policy, especially as regards import control, tax revenue, the credit policy of the Bank of the Republic, and both budgetary and extrabudgetary public expenditure. It did not prove possible to reach such an agreement, however, and it was postponed for 1982; moreover, the small drawings made under this facility in the last quarter of 1980 were quite insufficient to cover the very large trade deficit of US\$ 215 million with which the fiscal year closed.

The decrease of 6% in tax revenue (which depends to a large extent on taxes on foreign trade) and the increase in Government spending resulted in substantial expansion of the fiscal deficit, which rose to a level equivalent to 10.7% of the gross domestic product, compared with 7.5% in 1980. This took place even though public investment remained static in real terms.⁴

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	695	731	741	774	810	856	830
Population (millions of inhabitants)	5.16	5.28	5.41	5.53	5.67	5.81	5.95
Per capita gross domestic product (1970 dollars)	135	139	137	140	143	148	140
Growth rates							
B. Short-run economic indicators							
Gross domestic product at market prices	2.2	5.3	1.3	4.4	4.7	5.7	-3.0
Per capita gross domestic product	-0.2	2.8	-1.1	2.0	2.2	3.1	-5.4
Gross income ^b	2.6	5.6	3.3	3.7	3.6	6.1	4.5
Terms of trade (goods)	5.7	4.9	28.1	-8.3	-14.2	2.4	-18.6
Current value of exports of goods and services	15.2	32.8	24.0	21.3	4.5	31.3	-12.1
Current value of imports of goods and services	21.9	36.3	20.9	17.6	15.1	22.1	8.2
Consumer prices							
September to september	13.5	3.1	5.0	2.3	18.8	9.5	17.8
Variation between annual average	18.0	6.3	7.4	-2.9	9.7	16.3	17.7
Money	7.4	28.2	8.4	25.1	21.7	11.1	31.6
Wages and salaries ^c	...	...	...	26.6	-8.8	18.3	2.0
Current income of government	9.2	26.7	25.6	15.1	12.0	14.0	-4.9
Total expenditure of government	40.2	35.0	19.2	31.6	15.0	14.7	21.5
Fiscal deficit/total expenditure of government ^d	55.5	58.3	55.9	40.6	42.2	42.5	55.0
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-54	-77	-69	-98	-135	-144	-215
Balance on current account	-40	-52	-70	84	-117	-132	-182
Variation in net international reserves	-9	9	12	5	24	-27	-30
Disbursed external public debt	79	99	159	198	232	266	302

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cIndustrial minimum wages.

^dPercentage.

³The exchange rate of 5 gourdes per dollar has been kept fixed since 1919. During 1981, however, there were cases of the purchase of dollars at 6 gourdes or even, exceptionally, at higher rates.

⁴The increased deficit was partly due to purely statistical reasons, such as the inclusion in the budget of expenditure items which were previously classified as extrabudgetary.

Although this deficit was largely financed with external resources —many of them consisting of donations or loans on concessional terms— an increasing part was financed with domestic credit from the Central Bank. Thus, the monetary situation showed important changes, since on the one hand credit was oriented primarily towards the central government, and on the other, the money in circulation increased far more than was needed for the purposes of transactions. This was due partly to the need to make up with national currency for the shortage of dollars, which circulate freely in Haiti because of the openness of its financial system.

The imbalance between the supply of and demand for money helped to raise the rate of inflation from 16% to 18% on the basis of the difference between annual averages of the consumer price index and from 9.5% to nearly 18% on the basis of the difference between the end-of-September figures for each year (see table 1). In response to this, the minimum wages in manufacturing (basically assembly industries) and the public service were increased by 20% in October 1980, thus following the trend in the evolution of their purchasing power observed in recent years, and now stand at between US\$ 2.64 and US\$ 3.12 per day. The decline in agricultural and industrial activity and in the economy in general, however, probably meant higher unemployment and underemployment, and led to an effective drop in private consumption of 2.4%.

2. Trends in economic activity

(a) *Global supply and demand trends*

Against this predominantly depressive background, imports (on the supply side) and private investment and government consumption (on the demand side) prevented the contraction in the economy from being still greater (see table 2).

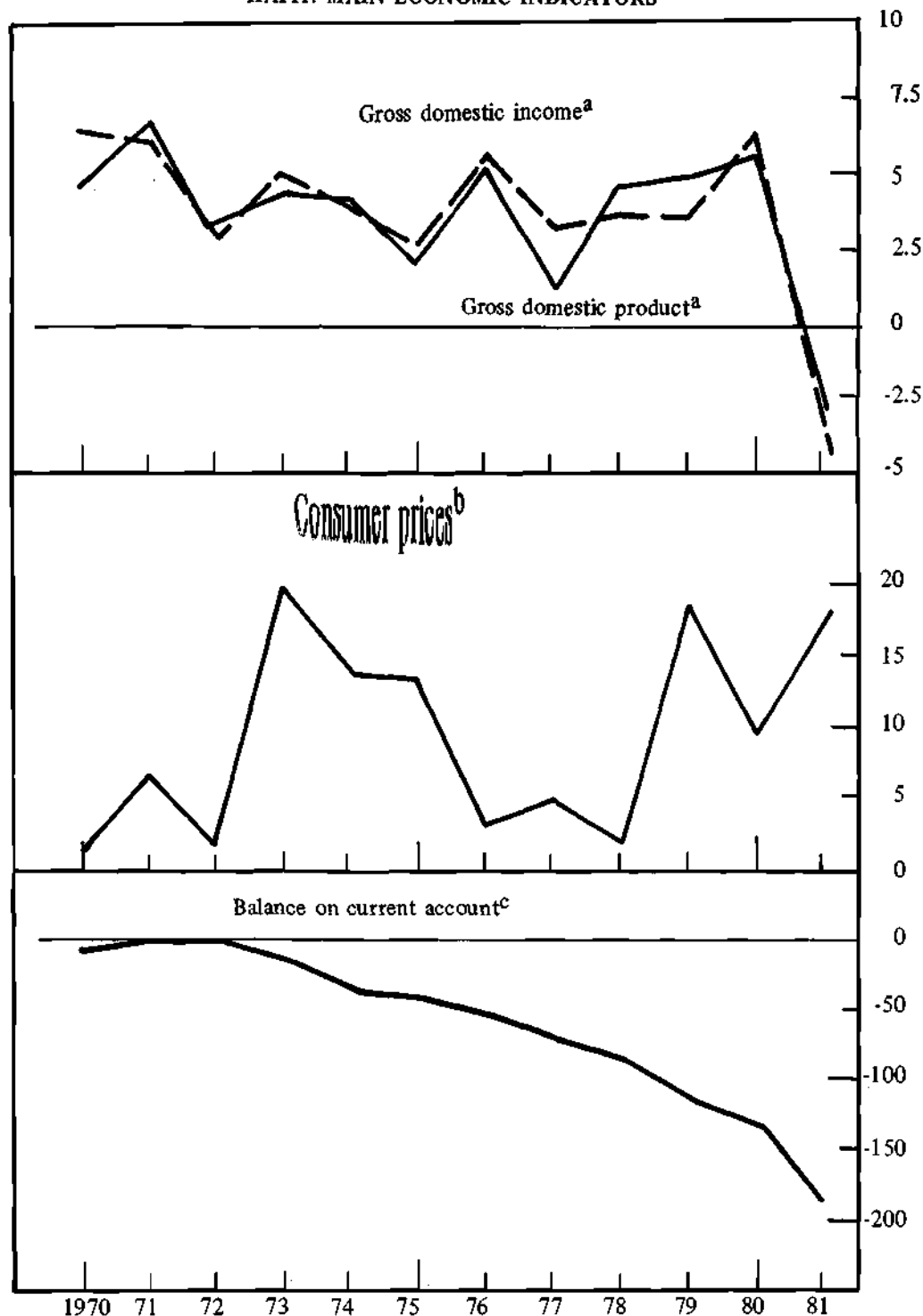
After a prolonged period of expansion, global supply went down in 1981 by nearly 2% as a result of a 3% drop in the gross domestic product, partly offset by the relative dynamism of imports, which grew by nearly 4% in real terms despite the balance-of-payments restrictions. A decisive role was played in this respect by the notable slackening in the growth rates of import prices.

As regards global demand, both its domestic and external components registered decreases. The drop in exports was most marked (3.8%) and was due to the reduction in exportable supply and in unit prices because of conjunctural factors both in the Haitian economy and at the world level. Domestic demand, for its part, went down by 1.7% as a result of a 2.2% drop in total consumption, which was brought down by the 3.0% reduction in private consumption. Government consumption, in contrast, registered a significant increase (6%) which reflected the higher current operating expenses. Gross investment grew only by an insignificant amount (0.7%) as a result of the stagnation of public investment, which offset the relative dynamism of private investment (2.8%). The latter was favoured by the government development policy and was also partly due to the satisfactory behaviour of foreign investment, which continued to enter Haiti in spite of the international recession. In contrast, 1981 saw the end of the dynamic growth of public investment, which is responsible for three-quarters of total investment. This stagnation was due to the financial difficulties already mentioned, but it should be noted at the same time that it occurred at the relatively high level reached in recent years (see table 2).

(b) *Growth of the main sectors*

The 3% contraction in the gross domestic product was the result of a fairly general drop in activity in all the productive sectors of the economy except electricity (which increased by over 9%), construction (which grew by 5%) and government services (which expanded by 4%) (see table 3). Because of the heavy weighting which agriculture has in total activity (42%), however, the 5% contraction suffered by it proved decisive as regards the evolution of the economy as a whole, on account of the direct and indirect effects this sector has on the rest of the economy, the financial resources which it provides for the Government, and the import capacity which it generates through exports.

Figure 1
HAITI: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation, September - September.

^cMillions of dollars.

Manufacturing, which is of increasing relative importance, shrank by 1%; mining continued to decline sharply as a result of the foregoing, and the rest of the sectors of the economy were also affected by depressive trends.

(i) *Agriculture.* The performance of agriculture in 1981 suffered from the negative effects of a number of structural and conjunctural factors which led to a 5% drop in production, export products being those which showed the greatest deterioration.

Thus, coffee suffered directly as a result of the damage caused by Hurricane Allen, which swept across the southern part of the country, where the main coffee-growing areas are located. This led to a drop of 45% in the volume exported, aggravated by the effects of the sharp decline in the international price of coffee, which went down by one-third. There were also substantial drops in the exportable supply of sugar (almost 60%), sisal (over 70%) and essential oils (20%). Cocoa was the only export crop which showed some improvement (10%), but in the stock-raising subsector there was a substantial increase in beef production (almost 80%), probably because of the reduction in the exportable supply from certain Central American countries which traditionally supply the United States market.

As in previous years, Haiti was once again obliged in 1981 to import rice, maize and beans, which are the basic foodstuffs of the population. In addition, although efforts are being made to control African swine fever through a national eradication programme, this disease continued to wreak havoc among the swine population, with the imminent peril of having to sacrifice a large part of it. Because of the hardness and rapid growth of pigs, pork is a popular food among the rural population, and the presence of swine fever has thus had the effect of causing an even greater deterioration in protein consumption and the quality of life in rural sectors.

Many and varied efforts are being made by the governments of different countries and by international organizations to carry out agricultural development activities in Haiti. Thus, 71 projects spread over 13 programmes and involving resources of the order of 260 million gourdes were executed during 1981. Of these, over 50% were part of the integrated rural development programme. This programme, which is being carried out in various regions of the country, is based on the belief that only by simultaneously attacking on various fronts (education, housing, social and economic conditions, etc.) will it be possible to solve the problems of underdevelopment affecting the country.

The rest of the projects cover a variety of activities ranging from the improvement of coffee plantations, the development of forests in eroded areas and the development of the valley of Artibonite, to the provision of funds for agricultural credit, research, etc.

An agricultural development policy based on the organization of projects and programmes, however, requires a substantial body of technical and administrative workers which is apparently beyond the present capacity of the country. Thus, of the expenditure budgeted for the agricultural sector in 1980, only 64% was actually used. In addition to holding up the execution of the projects, this situation raises serious doubts as to the possibility of organizing new development projects in this field.

(ii) *Mining.* Within this activity, which plays only an insignificant part in the Haitian economy, production of bauxite (entirely for export) continued its downward trend of the last five years, going down this time by 16% (see table 4). Indeed, the United States enterprise responsible for this activity announced that in view of the unprofitability of the mine due to the low aluminium content of the ore and the rising extraction costs it would be closing down operations and definitively withdrawing from the country in 1983. The authorities continued their prospection work for bauxite, copper, marble, coal and even oil, but the only substantial advance made was in respect of marble quarrying, in connexion with which an incipient industry is growing up. In the other cases no significant advances were made.

(iii) *Manufacturing.* Various factors adversely affected the evolution of manufacturing in 1981. On the one hand, the recession in the United States had a direct impact on the assembly firms which re-export their production to that market, and on the other, the depressive situation reigning in Haiti itself had negative effects on industries oriented towards supplying the domestic market, in view of the reduction in demand and especially of consumption. The contraction in the

amount of credit in real terms also played a crucial role in this respect. Moreover, the shortage of foreign exchange due to the drop in export income and the climate of speculation prevailing in connexion with the external situation of the country became a serious obstacle to efforts to ensure a continuing flow of imported inputs. Thus, the relative deterioration which the growth rate of manufacturing had begun to show in 1980 after several years of rapid growth culminated in 1981 in a contraction of 1% in real terms.⁵

As may be seen from table 4, production of the majority of industrial items showed declines, some of them of considerable magnitude, as in the case of cigarettes and shoes, which went down by 33%. Flour milling, however, showed an exceptional growth rate of 54% due to the special attention given to this product in development projects in recent years.

In general, the Government's industrial policy seeks greater integration between agriculture and industry, the use of local raw materials and the decentralization of industry through the establishment of industrial parks outside metropolitan Port-au-Prince at Cap-Haïtien and Les Cayes. Although there are various industrial development projects which combine public and private sector interests,⁶ the conditions prevailing in 1981 led to a delay in them because of the shortage of financing, which came on top of the negative factors already referred to and the problems which have traditionally hindered the formulation and execution of development projects in Haiti. Foreign investors and the Government still maintain interest in setting up assembly firms, however, because of the advantages offered by Haiti as regards wages and its closeness to the United States.

Table 2
HAITI: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	960	1 018	998	111.8	120.2	4.7	6.0	-1.9
Gross domestic product at market prices	810	856	830	100.0	100.0	4.7	5.7	-3.0
Imports of goods and services ^b	150	162	168	11.8	20.2	4.5	7.9	3.8
Total demand	960	1 018	998	111.8	120.2	4.7	6.0	-1.9
Domestic demand	869	916	900	101.2	108.4	4.7	5.4	-1.7
Gross domestic investment	133	143	144	7.3	17.4	15.2	8.0	0.7
Public	101	108	108	1.2	13.0	15.0	6.9	-
Private	32	35	36	6.1	4.7	14.3	13.0	2.8
Total consumption	736	773	756	93.9	91.0	3.1	4.9	-2.2
General government	63	68	72	8.7	8.7	3.3	7.9	6.0
Private	673	705	684	85.2	82.3	3.0	4.6	-3.0
Exports of goods and services ^b	91	102	98	10.6	11.8	4.1	12.4	-3.8

Source: ECLA, on the basis of figures provided by the Ministry of Planning and the Haitian Statistical Institute.

^aPreliminary figures.

^bThe values of exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for the purpose.

⁵In the 1970s, manufacturing expanded very quickly, with the total of 125 industrial firms recorded in a survey in 1971 rising to 219 in 1975 and 449 in 1981. In the last two years, there has above all been a proliferation of small artisanal enterprises rather than larger-scale ones. The most numerous factories are in the textile industry (126 plants), followed by the food industry (99 plants). See Ministry of Planning, *Main-d'oeuvre, emploi et ressources humaines*, Port-au-Prince, January 1982, p.9.

⁶See in this respect the various industrial projects listed in Ministry of Planning, *Plan Annuel, Exercice Fiscal 1980-1981*, Port-au-Prince, September 1980, pp. 168-171.

Table 3

**HAITI: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of 1970 dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	737	779	755	100.0	100.0	4.7	5.7	-3.0
Goods	457	481	461	64.6	61.2	4.9	5.2	-4.1
Agriculture, hunting, forestry and fishing	318	334	317	50.8	42.0	2.0	5.1	-5.1
Mining and quarrying	8	7	4	1.7	0.5	-14.7	-15.0	-45.8
Manufacturing	94	101	100	9.8	13.2	14.9	7.2	-1.1
Construction	37	39	41	2.3	5.5	13.3	5.8	4.9
Basic services	36	39	40	3.7	5.3	6.8	6.6	3.6
Electricity, gas and water	14	15	16	1.3	2.1	12.5	4.5	9.4
Transport, storage and communications	22	24	24	2.4	3.2	2.8	8.0	-
Other services	243	260	252	31.7	33.5	3.8	6.5	-2.6
Wholesale and retail commerce, restaurant and hotels ^c	89	95	87	10.9	11.6	4.7	5.8	-7.7
Ownership of dwellings	62	66	66	9.9	8.8	4.7	5.6	1.0
Community, social and personal services ^d	92	99	99	10.9	13.1	2.2	7.8	-
Government services	43	45	47	4.6	6.2	4.9	4.9	3.8

Source: ECLA, on the basis of data supplied by the Ministry of Planning.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cIncluding financial institutions, insurance and real estate, except ownerships of dwellings.

^dIncluding restaurants, hotels and business services.

Among the measures applied in February and March in order to defend the balance of payments, there were some which represented changes in industrial policy, since they offered greater protection to domestic producers. Thus, with the aim of containing imports, it was forbidden to purchase abroad certain types of goods also manufactured within the country, and subsequently other products were subjected to a system of import licences and a 20% increase was ordered in duties on luxury articles and foods and, later, in the tax on alcoholic beverages. These protectionist measures were not enough, however, to offset the current adverse conditions facing domestic industry.

In contrast with most of the other sectors of the economy, the electricity industry generated 320 million kWh during 1981 and thus continued the expansion begun in 1980 which has signified the achievement of growth rates of over 8.5% per year (see table 4). This was due to the continuation of a large number of small projects and some larger projects, among which special mention may be made of the expansion of the Varreux power station. In spite of this, however, there are still serious deficiencies in the access of the population to this source of energy, as is shown by the fact that 92% of the electricity is consumed in Port-au-Prince, 6.5% in four other large towns, and less than 2% in the rest of the country.

(c) Population and employment

It is estimated that in 1981 the economically active population (defined in this case as that aged 10 or more) came to 2 585 000 persons, of whom 22% were young people between 10 and 19 years of age and almost 9% were between 10 and 14. Of the total economically active population, 68% is engaged in agriculture, 10% in the secondary sector, and the remaining 22% in services. It is also estimated that while open unemployment amounted to 11.5% in 1981, nearly 40% of the

available labour force was affected by underemployment deriving, *inter alia*, from the long-standing problems of low productivity and over-population.⁷

Agricultural activities show the highest rates of underemployment —between 50% and 75%—⁸ and also have least potential for absorbing labour. In contrast, manufacturing has shown great dynamism both as regards the creation of jobs (37 000 per year between 1976 and 1981) and their productivity (25% of them correspond to the formal sector). Finally, commerce and services are branches with a relatively large informal component (after agriculture) and provide incomes below the level needed to satisfy basic needs.

3. The external sector

In an economy like that of Haiti, which is open both as regards trade (imports represent almost 20% of the gross domestic product) and finance (there is free domestic circulation of the US dollar), the recession in the world economy naturally had harmful internal effects. The most significant fact in connexion with external relations, however, was the marked drop in the price of coffee, which coincided with an even larger drop in the exportable supply of this product. This caused a serious deterioration in the external transactions account, with the deficit on current account rising to US\$ 185 million and a loss being recorded in the international currency reserves for the second year running, this time in the amount of almost US\$ 50 million.

Table 4

HAITI: MAIN INDICATORS OF INDUSTRIAL PRODUCTION

	Thousands of tons				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Mining production							
Bauxite	630	613	579	488	-2.7	-5.5	-15.7
Manufacturing output							
Index (1959-1960 = 100)	205	235	249	246	14.7	6.0	-1.2
Flour	69.0	83.1	173.0	266.9	20.4	108.2	54.3
Sugar	51.8	58.9	53.9	51.6	13.7	-8.5	-4.3
Soft drinks (millions of bottles)	50.0	79.3	73.8	63.9	58.6	-6.9	-13.4
Cigarettes (millions)	908	972	1 610	1 069	7.0	65.6	-33.6
Fats	2.4	2.6	3.3	3.0	8.3	26.9	-9.1
Edible oil	14.6	14.8	22.6	24.4	1.4	52.7	8.0
Soap	10.1	10.9	13.3	11.7	7.9	22.0	-12.0
Detergents (tons)	330	534	579	512	61.8	8.4	-11.6
Footwear (thousands of pairs)	351	389	795	528	10.8	104.3	-33.6
Cement	247	155	243	241	-37.2	56.8	-0.8
Cotton textiles (millions of yards)	1.6	0.5	-	-	-68.8	-	-
Toilet soap (tons)	283	253	253	258	-10.6	-	2.0
Essential oils (tons)	312	114	201	208	-63.5	76.3	3.5
Electricity output							
Electricity (millions of KWH)	284	271	294	320	-4.6	8.5	8.8

Source: Ministry of Trade and Industry and General Customs Administration.

^a Preliminary figures.

^b Figures refer to exports, since the entire output is exported.

⁷ See *Main d'oeuvre, emploi et ressources humaines, op.cit.*, pp. 1-22.

⁸ These underemployment figures are estimated in terms of the numbers of days worked (fully-employed workers are considered to be those who work 300 days per year), and not as a function of the value added per worker, which averaged 1 940 gourdes in 1981, whereas a barely sufficient figure would be 3 000 gourdes per year.

Table 5

HAITI: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods						
Value	40.0	38.2	8.9	-8.0	53.4	-19.7
Volume	24.7	-0.1	11.0	-3.9	33.0	-5.5
Unit value	12.2	38.4	-1.9	-4.2	15.4	-15.0
Imports of goods						
Value	34.5	21.8	3.8	12.8	25.9	8.6
Volume	25.2	12.8	-3.3	1.1	11.0	5.0
Unit value	7.5	8.0	7.4	11.6	13.5	3.4
Terms of trade (goods)	4.9	28.1	-8.3	-14.2	2.4	-18.6
Indexes (1970 = 100)						
Terms of trade (goods)	97.4	124.8	114.4	98.2	100.6	81.9
Purchasing power of export of goods	132.6	170.3	178.0	148.8	201.6	154.7
Purchasing power of exports of goods and services	137.9	159.0	185.0	175.6	203.7	171.2

Source: ECLA, on the basis of official data.

^a Preliminary figures.(a) *Merchandise trade*

During 1981 export income went down by almost 20% as the result of a 5% contraction in the volume exported and a 15% drop in export prices (see table 5). In contrast, the value of imports increased by 9% and their volume by 5%, although their unit value rose by a little under 3.5%, which is a much lower rate than in any of the preceding eight years. This was due to the drop in inflation in the United States, the reversal in the international oil price trends, and the devaluation *vis-a-vis* the dollar of the currencies of the main European countries with which Haiti trades. As the unit prices of exports suffered a drop of 15%, however, the terms of trade underwent a deterioration of nearly 19% which offset the gains recorded in the last six years and reduced the purchasing power of exports (see table 5).

(i) *Exports.* In 1981 the value of exports of goods came to US\$ 170 million, compared with US\$ 210 million the year before. There were substantial drops in the value of practically all exports of primary commodities. The most serious of these, however, was the drop in coffee sales, which went down by 64% because of a decline of 33% in the unit price and a drop of 45% in volume. In contrast, although there was a considerable (27%) drop in the value of exports of cocoa, this was due entirely to the lower prices, since the volume exported increased. During the year there was a reduction of around 15% in external sales of oils and bauxite, the value of exports of sisal went down by 47%, and exports of sugar practically disappeared (see table 6). As already noted, although there was a drop in the price of cocoa, there was an increase in the volume exported. In contrast, sales of meat more than doubled in value, both because of the larger quantity exported and the higher prices received. The value added by assembly industries increased by 5% according to initial estimates, but in real terms it went down, because of the recession in the United States.

(ii) *Imports.* Although the shortage of foreign exchange and the recessive domestic situation tended to check the growth of imports of goods, their value nevertheless rose from US\$ 295 million in 1980 to US\$ 320 million in 1981 (see table 7). The measures put into effect in the early

months of the year to defend the balance of payments did have some effect as regards moderating the growth of imports, and apart from the protectionist policies which benefited industry, there were increases in the duties on automobiles and gasoline.

According to data for the first half of the year, high import growth rates were maintained only for hydrocarbons and oils and fats (21% and 45%, respectively), and for beverages and tobacco (16%).

(b) Services and factor payments

Income from tourism came to US\$ 70 million, or nearly 8% more than in 1980, which actually signified a small reduction in real terms. Because of Haiti's great tourist potential, the Government has made efforts to attract tourists and has promoted various projects to develop tourism, but in 1981 the world recession made these efforts fruitless. Outward tourism by Haitians, for its part, which involved an outflow of US\$ 30 million, registered a considerable decline in real terms compared with 1980 as the result of the shortage of foreign exchange, the increase in the tax on airline tickets of Haitian travellers and the economic situation of the country (see table 8).

Altogether, the trade in goods and services showed a deficit of US\$ 215 million, or 50% more than the negative balance registered the year before. This deficit was partly offset by the remittances of Haitian emigrants, which amounted to nearly US\$ 45 million and thus exceeded the value of coffee exports. External factor payments, for their part, totalled the low figure of only US\$ 13 million, partly because the interest payments are very small on account of the preferential treatment given to Haiti by its creditors.

Table 6
HAITI: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total^b	158.9	147.9	225.9	153.3	100.0	100.0	-6.9	52.7	-32.1
Main products	107.0	78.7	133.0	63.3	69.6	41.3	-26.4	69.0	-52.4
Coffee	62.3	39.3	90.9	33.1	35.2	21.6	-36.9	131.3	-63.6
Cocoa and cocoa products	7.2	6.8	4.5	3.3	2.5	2.2	-5.6	-33.8	-26.7
Sugar ^c	2.8	0.6	8.4	0.9	7.5	0.6	-78.6	1 300.0	-89.3
Sisal and sisal products	3.2	2.7	1.7	0.9	4.2	0.6	-15.6	-37.0	-47.1
Essential oils	9.7	7.5	5.4	4.6	6.1	3.0	-22.7	-28.0	-14.8
Bauxite	17.2	18.0	19.6	16.6	13.0	10.8	4.7	8.9	-15.3
Cement	2.9	0.7	0.7	-	-	-	-75.9	-	-
Meat	1.7	3.1	1.8	3.9	1.1	2.5	82.3	-41.9	116.7
Product of the Free Zone (net)	32.1	42.3	54.7	57.3	6.5	37.4	31.8	29.3	4.8
Other goods^d	19.8	26.9	38.2	32.7	23.9	21.3	35.9	42.0	-14.4

Source: General Customs Administration.

^aPreliminary figures.

^bThe totals do not coincide with the figures given in the balance of payments because different sources involving non-equivalent concepts were used.

^cIncluding molasses.

^dComprising handicrafts and other agricultural and fisheries products.

Table 7

HAITI: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980 ^a	1981 ^{ab}	1970	1981 ^a	1979	1980 ^a	1981 ^{ac}
Total ^c	220.7	266.0	334.9	175.0	100.0	100.0	20.5	25.9	2.0
Food products	39.0	40.0	59.7	32.2	11.2	18.4	2.6	49.3	4.5
Beverages and tobacco	4.1	3.9	6.6	3.7	2.7	2.1	-4.9	69.2	15.6
Raw materials	9.8	7.8	12.4	5.9	3.9	3.4	-20.4	59.0	-16.9
Hydrocarbons	24.5	34.5	35.8	18.6	5.6	10.6	40.8	3.8	20.8
Oils and fats	13.4	18.8	23.4	10.7	6.7	6.1	40.3	24.5	44.6
Chemical products	20.1	23.9	27.8	14.8	10.4	8.5	18.9	16.3	-2.6
Manufactured articles	42.7	61.2	70.3	37.8	17.7	21.6	43.3	14.9	-3.8
Machinery and transport equipment	42.9	54.3	63.6	35.8	20.0	20.5	26.6	17.1	0.3
Miscellaneous manufactured articles	23.0	20.1	30.1	15.0	21.4	8.6	-12.6	49.8	1.4
Other	1.2	1.5	5.2	0.5	0.4	0.2	25.0	246.7	-81.5

Source: General Customs Administration and Banque de la Republique d'Haiti.

^aPreliminary figures.

^bPeriod October 1980 - March 1981.

^cPeriod October 1980 - March 1981 compared with period October 1979 - March 1980.

^dThe totals do not coincide with the figures given in the balance of payments because different sources involving non-equivalent concepts were used.

(c) *The current account position and its financing*

As a result of the foregoing, the current account deficit came to US\$ 185 million, which is equivalent to 73% of export income and represents a big increase on the figure of a little over US\$ 130 million registered the year before.

In order to help to cover this deficit, Haiti received official donations amounting to US\$ 66 million, which meant that these payments recovered their upward trend after the decline suffered in 1980. The same occurred in the case of foreign investment, which brought in an income of US\$ 21 million. In contrast, the official loans received (US\$ 60 million) showed only a slow growth rate of 5%,⁹ largely on account of the shortage of domestic counterpart resources for development projects, while amortization payments on these loans went down to US\$ 4 million.

In short, the capital income was not enough to cover the current account deficit, so that the international monetary reserves suffered a serious loss of US\$ 50 million, causing them to drop to a level of only US\$ 19 million at the end of the fiscal year.

(d) *External public debt*

At 30 September, the total external public debt came to a little over US\$ 300 million, or 14% more than one year before. Because of the donations received by Haiti (which amount to more than the loans), the country has not had to resort to external indebtedness to an excessive extent. Nevertheless, its external indebtedness is already equivalent to 20% of the gross domestic product, which is a significant proportion, even though not one of the largest in Latin America. Likewise, because of the preferential treatment given to Haiti by the international financial community, the debt servicing (US\$ 13 million in 1981) represented no more than 5% of exports of goods and services, which is one of the smallest proportions in Latin America and shows that the country still has some room for manoeuvring as regards the use of foreign capital (see table 9).

⁹This amount includes about US\$ 14 million provided by the IMF under the Expanded Facility arrangements, which however, were not continued, as explained below. Without this amount, this item would have suffered a substantial decline.

Table 8
HAITI: BALANCE OF PAYMENTS

(Millions of dollars)

	1976	1977	1978	1979	1980	1981
Exports of goods and services	140	174	211	221	290	255
Goods FOB	100	138	150	138	212	170
Services ^a	41	37	61	83	78	85
Transport and insurance	1	2	2	4	6	5
Travel	25	30	53	72	65	70
Imports of goods and services	217	263	309	356	435	470
Goods FOB	164	200	207	234	295	320
Services ^a	53	63	102	122	140	150
Transport and insurance	38	40	49	53	71	70
Travel	5	6	28	40	28	30
Merchandise balance	-64	-62	-56	-96	-83	-150
Trade balance	-77	-89	-98	-135	-145	-215
Profits and interest	-8	-12	-15	-14	-14	-13
Profits	-6	-8	-9	-7	-9	-6
Interest received	-	-	-	-	1	-
Interest paid	-2	-4	-6	-7	-6	-7
Unrequited private transfer payments	33	31	29	32	27	43
Balance on current account	-52	-70	-84	-117	-132	-185
Unrequited official transfer payments	32	33	39	58	55	66
Long-term capital	44	70	50	67	61	78
Direct investment	8	8	10	12	13	21
Portfolio investment	-	-	-	-	-	-
Other long-term capital	36	62	40	55	48	57
Official sector ^b	29	43	29	50	48	57
Loans received	22	45	43	45	48	61
Amortization payments	-3	-2	-3	-2	-	-4
Commercial banks ^b	-	-	-	-	-	-
Loans received	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-
Other sectors ^b	7	20	11	5	-	-
Loans received	12	26	17	10	-	-
Amortization payments	-5	-6	-6	-5	-	-
Basic balance	24	33	5	8	-16	-41
Short-term capital	-7	-1	-3	-1	-20	...
Official sector	-	-	-	1	-	...
Commercial banks	-7	-1	-3	-2	-20	...
Other sectors	-	-	-	-	-	...
Errors and omissions (net)	-5	-19	9	8	7	-9
Balance on capital account	63	83	96	132	103	135
Global balance ^c	11	13	12	15	-29	-50
Total variation in reserves ^c (- sign indicates an increase)	-11	-13	-6	-24	26	50
Monetary gold	-	-	-	-5	-4	2
Special Drawing Rights	1	-	-3	-2	4	3
IMF reserve position	-	-	-3	-3	6	0
Foreign exchange assets	-14	-8	-	-11	22	15
Other assets	-	-	-	-	-	-
Use made of IMF credit	1	-5	-	-2	-3	30

^aServices also include other official and private transactions, but not profits and interest.

^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^cThe difference between the total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Table 9

HAITI: INDICATORS OF EXTERNAL INDEBTEDNESS^a

(Millions of dollars)

	1976	1977	1978	1979	1980	1981 ^b
Total external public debt	99	159	198	232	266	302
Government	72	113	142	167	199	220
Public enterprises	27	46	56	65	67	82
Servicing of external debt	11	12	14	11	15	13
Amortization payments	9	8	9	7	10	8
Interest payments	2	4	5	4	5	5
Servicing of external debt, as a percentage of total exports of goods and services	7.9	6.9	6.0	5.0	5.2	5.1

Source: Banque de la République d'Haiti.

^aBalance of disbursed debt with a term of more than one year as at 30 September of each year.^bPreliminary figures.

4. Prices and wages

Inflationary pressures persisted in 1981, when the growth rate of prices rose to nearly 18% compared with 16% the year before¹⁰ (see table 10). This occurred in spite of the marked slackening in imported inflation.

Indeed, the inflation rate was due largely to the increase in food prices (21%), which have a weighting of nearly 70% in the general index. The scanty supplies of basic foods due to the bad agricultural year and the rigidity in the supply of these goods were among the causes of the persistence of upward pressures on the prices of primary commodities. According to data for the first half of the year, the biggest increases were in the price of sugar (96%), maize (49%) and plantains (43%). The rise in the prices of clothing and rents, however, was below the growth rate of the general index.

In October 1980 minimum wages were increased by 20%, thus benefiting the formal sector of industry (consisting basically of assembly activities), the public service and some select groups in commerce and services. Although these increases were largely neutralized by inflation, they gave rise to a 2% increase in real wages in the fiscal year 1980/1981. Nevertheless, this rise was substantially smaller than in the previous period (see table 11). No changes were made in wages in October 1981. Thus, the minimum wages paid in the modern sector stood at between US\$ 2.64 and US\$ 3.12 per day in certain branches of the assembly industry. The rest of the population remained outside the scope of these measures, however, and in view of the poor performance of agriculture and of the economy in general, it is estimated that there was a significant drop in the consumption of the poorest sectors and a further deterioration in the unequal distribution of income in Haiti.¹¹

¹⁰For purposes of analysis it is preferable to use the variation between the annual averages for the consumer price index rather than the variations as at September, because of the high variability shown by this index. Thus, taking the variations in the index between the months of July, inflation would have more than doubled (from 13% in 1980 to 27.1% in 1981), whereas if we take the variations between the months of August inflation would barely have increased, rising from 17.7% in 1980 to 20.3% in 1981. Finally, if we take the variation between the September figures, these once again show a substantial rise from 9.5% in 1980 to 17.8% in 1981.

¹¹In 1976, 0.4% of the population received 44% of the national income, while the poorest 80% of the population had an income of less than US\$ 100 per year, according to the Haitian Statistical Institute, *Enquete a buts multiples*, 1976.

5. Monetary and fiscal policy

(a) *Monetary policy*

The deterioration in the external accounts and the big imbalance in the public finances were the main reasons why the monetary picture showed some disequilibria in 1981.

As already noted, the trade deficit and the climate of uncertainty which grew up in the country and led to some flights of capital in the early months of the year caused an unusual shortage of foreign exchange, to such an extent that an incipient parallel market temporarily arose in which the dollar came to be quoted at over 20% above its official value. This phenomenon is particularly significant in Haiti because the dollar and the gourde circulate freely together at an exchange rate of 1:5 which has not been changed for the past 62 years.

In spite of the drop in the net international reserves to levels which were even negative in certain months, the amount of money in circulation grew by 32%, which was considerably more than the rise in the gross domestic product at current prices (14%) and of course much more than the 11% increase recorded in the means of payment in 1980 (see table 12). In essence, this increase reflected the strong growth in the issue of money, which was designed partly to finance the enormous public deficit and partly to make up for the dollars taken out of the system.

The central government was the sector which asorbed the largest volumes of credit —50% more than in 1980— while credit channelled to the private sector grew by less than 13%. This figure actually represented a slight reduction in real terms, and had a negative effect on industry and commerce. Public institutions, for their part, obtained 10% less credit in 1981 than in 1980 (see table 12).

Table 10
HAITI: CONSUMER PRICE INDEX

	1976	1977	1978	1979	1980	1981
Variation from September to September						
Consumer price index	3.3	5.0	2.3	18.8	9.5	17.8
Food	-0.2	8.1	-2.0	26.4	13.9	17.5
Variation between annual averages (fiscal years)						
Consumer price index	6.3	7.4	-2.9	9.7	16.3	17.7
Food	6.5	7.3	-6.6	9.9	24.7	21.1

Source: Haitian Statistical Institute.

Table 11
HAITI: EVOLUTION OF WAGES AND SALARIES

	Indexes (1977 = 100)				Growth rates			
	1978	1979	1980	1981	1978	1979	1980	1981
Wages and salaries ^a								
Nominal	123.0	123.0	109.2	203.1	23.0	-	37.6	20.0
Real	126.6	115.5	136.6	139.3	26.6	-8.8	18.3	2.0

Source: ECLA, on the basis of figures from the Banque de la République d'Haiti and the Haitian Statistical Institute.

^aMinimum wages paid in industry.

Table 12

HAITI: MONETARY BALANCE

	Balance at end of September of each year (millions of gourdes)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Money	503	612	680	895	21.7	11.1	31.6
Currency outside banks	273	348	346	467	27.5	-0.6	35.0
Demand deposits	230	264	334	428	14.8	26.5	28.1
Factors of expansion	1 597	1 953	2 245	2 598	22.3	15.0	15.7
Foreign assets (net)	114	195	149	2	71.1	-23.6	-98.7
Domestic credit	1 483	1 758	2 096	2 596	18.5	19.2	23.9
Government (net)	433	517	787	1 187	19.4	52.2	50.8
Official entities	235	271	284	255	15.3	4.8	-10.2
Private sector	815	970	1 025	1 154	19.0	5.7	12.6
Factors of absorption	1 094	1 341	1 565	1 703	22.6	16.7	8.8
Quasi-money (savings and time deposits)	660	744	931	1 025	12.7	25.1	10.1
Long-term foreign borrowing	341	458	440	490	34.3	-3.9	11.4
Other items (net)	93	139	194	188	49.5	39.6	-3.1

Source: Banque de la République d'Haiti.

^aPreliminary figures.

^bIncludes allocations of Special Drawing Rights and allocations from the IMF trust fund.

Because of the financial openness which characterizes Haiti, interest rates moved in line with those abroad, which fluctuated at high levels. This was not sufficient stimulus to procure greater resources, however, since savings and term deposits grew by only 10%, which also represented a reduction in real terms. Long-term external loans performed in a similar manner. Altogether, total procurement of resources, which increased by 9%, was not enough to cover the increase in the factors of expansion, whose most dynamic element was public financing, which rose by nearly 370 million gourdes. In fact, even before the end of the financial year this variable had exceeded the limits agreed with IMF in the context of the negotiations aimed at obtaining substantial credit from that organization under the Expanded Facility, and this was one of the reasons why the negotiations in question were temporarily abandoned.

(b) *Fiscal policy*

In Haiti, fiscal income is closely linked with the performance of external trade, for taxes on external trade represent more than 40% of total current income and therefore the reduction of nearly 22% in revenue from such taxes in 1981 meant that the Government suffered a loss of income of nearly 5% (see table 13). The tax burden, which is one of the lowest in the region, went down to 8% in 1981.

In contrast with this deterioration in income, total expenditure went up by 22% as a result of the even more rapid expansion (33%) in current expenditure, outstanding among which was the rapid increase in miscellaneous purchases and expenditure (48%) as part of the operating budget, of which the Department of Finance, the Department of National Education and the Armed Forces receive the largest shares after the Central Amortization Fund. It should be noted that this year the figures included items which had previously been classed as extrabudgetary, and this increased the total and thus raised the growth rate of current public spending. Public service remunerations as a whole increased by 20%, entirely as the result of the wage increases referred to earlier, since there was no substantial additional hiring of personnel nor was there any perceptible

increase in the State machinery. In contrast, investment expenditure increased by only 12%, which means that it probably went down in real terms.¹²

In fact, from the very beginning the 1980-1981 investment budget envisaged very modest growth, 40% of which was to be financed from domestic resources and 60% from external resources. The national priorities were industry, agriculture and transport, while external assistance, although placing emphasis on the latter two areas, gave priority to the development of energy and transport, increased the emphasis on education and community development, and left industry completely on one side. Altogether, the expenditure budgeted for investment finally went mainly to transport and agriculture (each of which sectors received 16% of the total), energy (15%) and industry and education (9% each), the remaining 35% being distributed among the other sectors.

At all events, as has usually been the case in Haiti, the investment programme was only fulfilled to the extent of 60% or 70% because of the internal difficulties in carrying out certain development projects and the lack of national counterpart resources. This is why, although the development budget provided for a contribution of 185 million gourdes, in reality only 83 million were disbursed, so that total public investment amounted to 719 million gourdes instead of the figure of 1 094 million budgeted.

Table 13

HAITI: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of gourdes				Growth rates		
	1978	1979	1980 ^a	1981 ^a	1979	1980 ^a	1981 ^a
1. Current income	541	606	691	657	12.0	14.0	-4.9
Tax revenue	428	494	629	591	15.4	27.3	-6.0
Direct and indirect	210	250	268	309	19.0	7.2	15.2
On foreign trade	218	244	361	282	11.9	48.0	-21.9
2. Current expenditure	325	407	540	719	25.2	32.7	33.1
Wages and salaries	180	208	293	353	15.6	40.9	20.5
Other current expenditure	145	199	247	366	37.2	24.1	48.2
3. Saving on current account (1 - 2)	216	199	151	-62	-7.8	-24.1	...
4. Capital expenditure	586	641	662	741	9.4	3.3	11.9
Real investment	569	626	642	719	10.0	2.6	12.0
Debt amortization payments	17	15	20	22	-11.8	33.3	10.0
5. Total expenditure (2 + 4)	911	1 048	1 202	1 460	15.0	14.7	21.5
6. Fiscal deficit (1 - 5)	-370	-442	-511	-803	15.0	15.6	57.1
7. Financing of deficit							
External financing	...	330	340	434	...	3.0	27.6
Grants ^b	...	209	183	328	...	-12.4	79.2
Loans	...	121	157	106	...	29.8	-32.5
Domestic financing	...	112	171	369	...	52.7	115.8

Source: ECLA, on the basis of figures provided by the Department of Finance and Economic Affairs of the Ministry of Planning and the Banque de la République d'Haiti.

^aPreliminary figures.

^bExcludes food imports from the United States on concessional terms under that country's law on agricultural surpluses (P.L.480, Title I), and donations by non-governmental organizations.

¹²It is important to note that there are a number of non-identifiable items which make it impossible to know exactly whether these represent consumption expenditure (other than remunerations) or investment expenditure. Moreover, the heading "other current expenditure" includes the expenditure made through the Central Amortization Fund. In addition, these items include extrabudgetary outlays which make it difficult to carry out any calculations and which persist in spite of the continuing efforts to eliminate them. Within the framework of the efforts to put public finances on a sounder basis, however, an important step forward was taken in 1981 with the limitation of the fiscal functions of the Tobacco and Matches Monopoly (*Régie du Tabac et des Allumettes*).

In spite of these restrictions on investment expenditure, the central government fiscal deficit nevertheless came to somewhat over 800 million gourdes, or 57% more than in 1980. This deficit was equivalent to 10.7% of the gross domestic product, compared with 7.5% the year before. In order to cover it, resort was had to donations from abroad, which showed rapid growth to 328 million gourdes; foreign loans, in contrast, went down to 106 million gourdes. Total external resources thus amounted to 434 million gourdes and financed 54% of the deficit: a considerably smaller proportion than the 66% covered the year before. Domestic financing, however, more than doubled and, as already noted, constituted a fundamental factor in the expansion of the monetary flows.

HONDURAS

1. Recent economic trends: Introduction and summary

After growing significantly and systematically during the four-year period 1976-1979, the gross domestic product increased by only 2.5% in 1980, and in 1981 it actually fell slightly (see table 1 and figure 1).

Both external and internal factors were responsible for this trend. The former included in particular the drop in external demand for the country's main export commodities, the deterioration in the terms of trade, and the rising rates of interest in the international financial markets. Internal factors included primarily the sharp drop in fixed capital formation, due above all to a severe contraction of public investment and also to a reduction in private investments owing to the atmosphere of uncertainty surrounding the election process and the political situation through which neighbouring countries were passing. Both groups of factors lent weight to each other: the climate of uncertainty aggravated the deterioration in the balance of payments, since it led to the flight of a considerable amount of foreign exchange, while the drop in public investment limited the capacity to mobilize external financing from official sources in amounts comparable to those received in past years. The recessive effects of those phenomena were reflected in imbalances in the monetary, financial and budgetary areas.

The limitations originating in the external sector were reflected in a loss of international monetary reserves of rather more than US\$ 70 million. This situation was attributable first to the drop in the value of exports as a result of the widespread recession in the world economy, the problems related to the banana supply, and the growing restrictions on Central American trade. Nevertheless, the decline in the value of imports was such that it not only compensated for the contraction in exports but even enabled a smaller trade deficit to be achieved than in the preceding year. In addition to the drop in exports, however, another negative factor which had a decisive effect on the current account deficit was the substantial increase in interest payments brought on by the rise in interest rates in the international financial markets and the deterioration in the structure of public debt, which is referred to below. Finally, in 1981 the country attracted a smaller amount of external capital than in the two preceding years, due on the one hand to the deceleration in the public investment programme, which receives a large share of external financing, and on the other hand, to the increasing difficulty experienced by the Central American countries in obtaining credit in the international financial markets and to the flight of capital mentioned above.

The drop in investment was basically due to the deterioration in the structure of public expenditure caused by the increase in operating expenses (not always in connection with development activities) and the decline in income, which reduced the resources needed to continue with the ambitious public investment programme initiated in past years. Thus, while in 1980 41% of the central government's disbursements were for investment, in 1981 this proportion fell to a little over one-third.

Financial imbalances were also observed in a large number of decentralized enterprises and entities, mostly on account of increases in operating costs, declines in income and, in the case of the official banks, difficulties in recovering their loans. For example, the financial restrictions of the National Investment Corporation (CONADI) were partly responsible for the sluggishness shown by private investment.

In addition, because of the financial imbalances in the public sector, more recourse was had than in the past to short-term external financing on rather unfavourable terms, which caused a

deterioration in the structure of the external public debt. This had immediate adverse consequences which were reflected in the substantial increase in the factor payments of the exterior — a trend which, for the reasons indicated, will become more marked in the future. On the other hand, the reduction in long-term external financing from official sources may be attributed to the delay mentioned above in the execution of the public investment programme, which was due in some cases to obstacles of an administrative nature (such as occurred in the construction of a new port on the Atlantic) and, in others, to financial restrictions on expenditure in local currency.¹

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	914	991	1 077	1 147	1 223	1 254	1 249
Population (millions of inhabitants)	3.09	3.20	3.32	3.44	3.56	3.69	3.82
Per capita gross domestic product (dollars at 1970 prices)	296	310	325	334	343	340	327
Growth rates							
B. Short-run economic indicators							
Gross domestic product at market prices	-1.7	8.4	8.7	6.5	6.6	2.5	-0.4
Per capita gross domestic product	-5.0	4.7	4.9	2.7	2.9	-1.0	-3.8
Real gross domestic income ^b	-2.8	10.0	12.0	6.5	4.4	3.1	-2.9
Terms of trade (goods and services)	-5.0	6.8	13.4	-0.5	-8.2	2.6	-9.4
Current value of exports of goods and services	3.8	31.7	28.0	18.4	21.0	11.5	-1.4
Current value of imports of goods and services	-2.1	15.4	27.4	18.6	19.8	20.9	-6.6
Consumer prices							
December - December	7.8	5.6	7.7	5.3	22.5	11.5	9.6 ^c
Variation between annual averages	8.1	5.1	8.4	5.7	12.1	18.1	9.4 ^d
Money	8.6	37.3	14.2	15.6	14.9	10.9	15.2
Current income of government	11.3	25.9	29.6	11.3	16.7	20.1	-2.2
Total expenditure of government	31.4	19.1	27.0	21.3	8.3	36.3	-0.5
Fiscal deficit/total expenditure of government ^e	35.0	31.3	29.9	35.7	30.7	39.0	40.1
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-101	-60	-74	-89	-98	-198	-136
Balance on current account	-125	-115	-139	-170	-212	-334	-295
Variation in international reserves	54	38	66	10	25	-73	-72
External debt ^f	450	547	688	846	1 000	1 261	1 439

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product at market prices plus terms-of-trade effect.

^cVariation November-November.

^dVariation between average indexes for January-November. In 1980 the variation of the average index for this period was 18.7%.

^ePercentage.

^fTotal disbursed public and private external debt.

¹The drop in external financing associated with this phenomenon was accompanied by a decline in imports of goods as a direct consequence of the lower level of public investment and as an indirect effect of the slower pace of economic activity in general.

The growing needs of the public sector for financing also led the monetary authorities to give high priority to domestic credit for both the central government and decentralized entities, to such an extent that bank credit to the private sector was restricted. This put heavy pressure on the financial intermediation system, which was reflected in a severe shortage of liquidity even though deposits continued at a normal rate.

In view of these factors, the economic policy in 1981 was basically aimed at coping with the disequilibria in the balance of payments and the fiscal accounts and at ensuring an adequate domestic supply of food.

Thus, during the second quarter of the year the Government applied a surtax of 5% and 10% on imports, depending on the type of goods, for the dual purpose of containing their growth and generating additional tax revenue. External sector policy was aimed at reducing imports by supplementing the taxes mentioned above with a very flexible system for controlling the sale of foreign exchange for some external purchases especially those related to services such as tourism. An attempt was also made to retain the foreign currency derived from external sales through a system of export licences, although the system was not very strictly controlled, and some indicators suggest that the flight of foreign exchange took place primarily through the placing of assets in the exterior.

In the monetary and financial areas, measures were adopted to raise internal savings by increasing the interest rate. Although savings increased (for other reasons as well), these larger resources were not reflected in bigger investments in the private sector, mainly because of the uncertainty already referred to, and were channelled by the public sector in order to cover some of its operating expenses. In the fiscal area, the remaining measures were confined to reducing expenditure (especially capital expenditure), as noted above.

During the year, the domestic supply of basic grains increased significantly as a consequence of the combination of larger amounts of credit and technical assistance and higher guaranteed prices. This resulted in a decline in the purchases of these commodities abroad and in a slackening of the growth rate of consumer prices, which rose by 9%, compared with the rate of 11.5% recorded for the preceding year.

In brief, the adoption of a policy aimed at containing expenditure in conditions of economic stagnation reduced the magnitude of some financial disequilibria and kept others from getting out of hand. However, this policy increased the depressive effects of the situation in the external sector, led to a rise in the levels of unemployment, and made disparities in income distribution more acute, despite a relative improvement in the real minimum wage which was not, however, reflected in an increase in total wage payments.

Against this background, it should be noted that in the last months of the year a process of democratic institutionalization took place, and the first elections in the last ten years were held.

2. Trends in economic activity

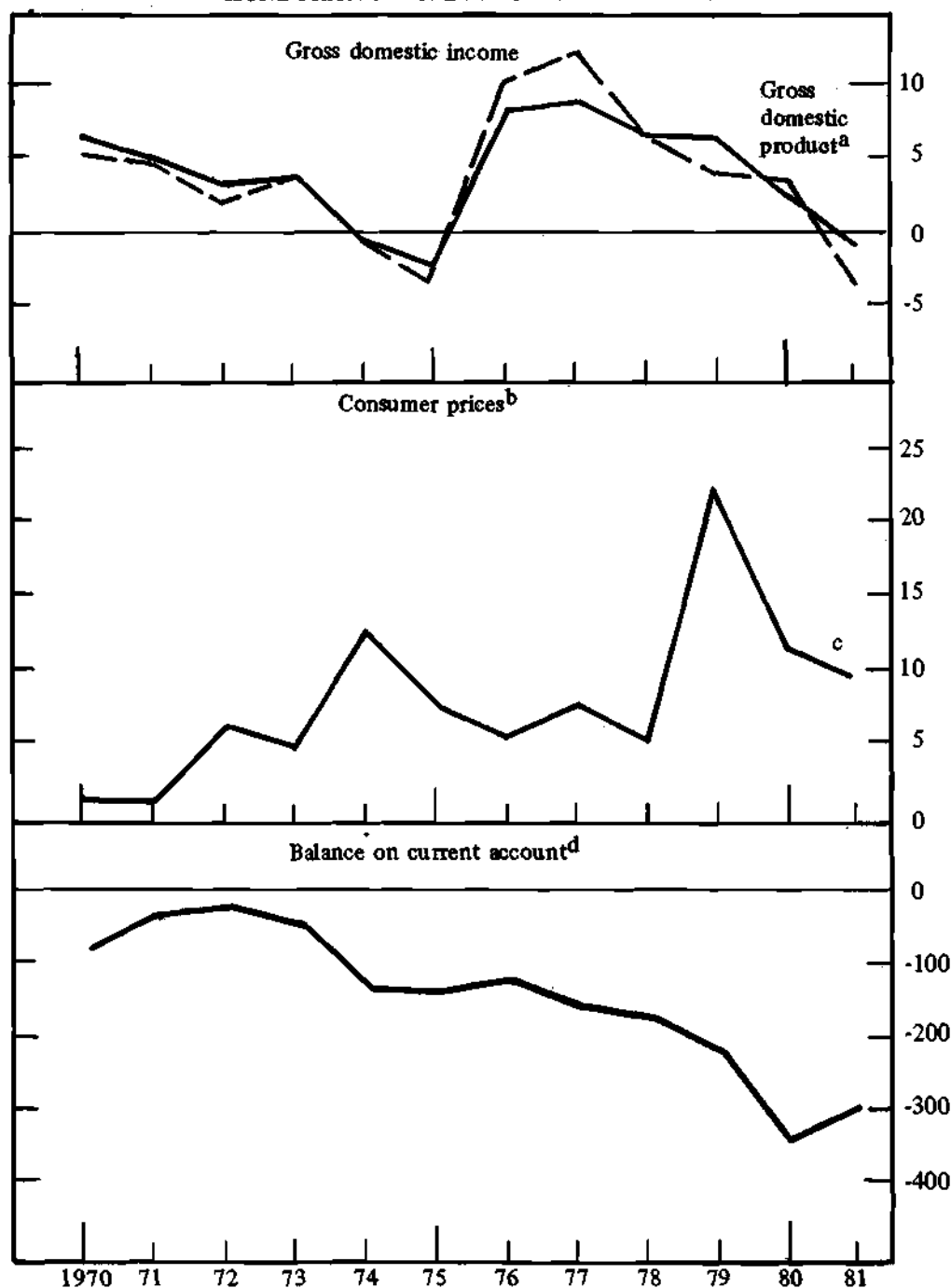
(a) *Global supply and demand trends*

During 1981, the gross domestic product declined slightly (-0.4%), after having risen by only 2.5% in 1980. This contrasted significantly with the dynamic growth during the four-year period 1976-1979, when an average growth rate of nearly 8% was achieved. The further deceleration of the economic growth rate caused a drop of 4% in the per capita product, on the heels of a drop of 1% in 1980. Furthermore, the drop of nearly 10% in the terms of trade resulted in a decline of 3% in the gross income: a situation only comparable in recent years with that which occurred in 1975.

The drop of 3% in global supply was the result of the slight decline in the production of goods and services already mentioned and of the marked reduction of 12% in imports. The drop in external purchases, however, in the light of the virtual stability of the product, meant that the import coefficient fell to 28% in 1981, compared with 34% the preceding year (see table 2).

Figure 1

HONDURAS: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation, December - December.

^cFor 1981, percentage variation, November - November.

^dMillions of dollars.

With regard to demand, the growth rates of all its components, with the exception of external sales, fell by comparison with the preceding year. The drop in gross domestic investment (-20%) was particularly marked. Moreover, although exports did expand slightly, their growth was not sufficient to recover the 1979 level.

Public investment, whose growth rate during the preceding year had more than compensated for the negative growth of private investment, contracted by 25% owing to the high price of financial resources, although the most important public projects continued to be implemented in the fields of forestry, energy and roads. Private investment, which had already fallen in absolute terms in 1980 compounded this fall by dropping nearly 9% as a result of the recessive climate of the economy and especially the tension existing in the Central American area. It should be noted that the increase in the supply of credit for the private sector barely matched the growth of the product in current values and that the cost of capital soared, following the trend of interest rates in the international markets.

Although no estimates are available for investment broken down in terms of construction and machinery and equipment, the drop in the construction product and the decline in public investment (in which the construction sector plays a prime role) makes it reasonable to assume that the construction sector deteriorated further.

The decline in investment at a time when the product was stagnating reduced the total investment coefficient from 27% in 1980 to 24% in 1981. This decline was due to a reduction in the coefficients of public investment (from 10% to just under 8%) and private investment (from 17% to 15%).

Although private consumption remained at a similar level to the preceding year, in per capita terms it fell by nearly 3%, basically because of a decline in the total wages paid. Government consumption, for its part, fell by 2% as a result of the austerity policy adopted.

Exports of goods and services, which had experienced a significant drop of 7% in 1980 after growing vigorously (at an average of 13% annually) during the previous three-year period, recovered slightly in 1981 (see table 2).

(b) The growth of the main sectors

(i) *Introduction.* The gross domestic product remained virtually the same (-0.4%), whereas the preceding year it had increased by 2%. Among the goods-producing sectors, agriculture and manufacturing grew slightly (by 1% and 2.5%, respectively), but construction declined by 9% as a result of the drop in investment. The services sectors, in line with the slackness of the economy, stagnated or declined by between 1% and 2% (see table 3).

(ii) *Agriculture.* The slight recovery in the agricultural product (1%) after a decline of 3% the preceding year was attributable entirely to the expansion of production for domestic consumption, since production for the external market dropped (see table 4). In 1981 basic grains were particularly dynamic. Maize production experienced a notable increase (25%), which more than compensated for the drop of 3% suffered in 1980. Similarly, the significant expansion in the production of sorghum (37%) meant that the level achieved in 1978 was exceeded by 11%. A similar situation occurred as a result of the increase in the production of beans (8%), which made it possible to recover from the fall which had occurred the preceding year, although the level of production was still 11% lower than in 1978. Finally, while rice experienced only modest growth (3%), it nevertheless continued the upward trend of recent years.

These results were due to the favourable climatic and rainfall conditions and to the agricultural policy followed in connection with basic grains, which combined more ample provision of technical assistance, larger amounts of credit and higher guaranteed prices. Thus, the credit disbursed by the National Agricultural Development Bank (BANADESA) to purchase basic grains was expanded by 30%, while the support prices for maize, beans, rice and wheat rose by 13%, 37%, 19% and 10%, respectively.

The increase in the production of this kind of food has made it possible to reduce purchases in the exterior from US\$ 38 million in 1980 to only US\$ 7 million in 1981. At the same time, the larger domestic supply has resulted in slower growth of consumer prices.

Another commodity for domestic consumption whose production grew more rapidly than the preceding year was the African palm. The entry into production of the plantations established in 1977-1978 and the increase in the yield of the areas planted in the years immediately prior to that season resulted in production increases of the order of 41% and 32% in 1980 and 1981, respectively, making it possible to achieve a level of production twice as high as that of 1978.² The programme for expanding this crop has been carried out mainly in the Bajo Aguán valley and is part of the Concentrated Rural Development Project organized to aid beneficiaries of the agrarian reform programme.

In production for the external market, the analysis by individual commodities reveals a different kind of behaviour. Thus, production of bananas, which constitute the country's most important export and which had already fallen by 3% in 1980, fell again —this time by 12%— as a result of the floods,³ failure to control the sigatoka disease, labour disputes in the banana companies and social, economic and administrative problems in the banana co-operative (Empresa Asociativa Campesina de Isleras).

Cotton was another commodity whose production fell (-22%), although this came after a substantial rise during the preceding year (19%). It has not been possible to do anything about the erratic performance of cotton production, due in part to the farmers' lack of experience with this crop and the failure to control insects and pests, even though prices in the international markets have risen slowly but surely and ample financial support has been made available.

Table 2
HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	1 605	1 650	1 597	124.6	127.9	7.7	2.8	-3.2
Gross domestic product at market prices	1 223	1 254	1 249	100.0	100.0	6.6	2.5	-0.4
Imports of goods and services ^b	382	396	348	24.6	27.9	11.4	3.6	-12.1
Total demand	1 605	1 650	1 597	124.6	127.9	7.7	2.8	-3.2
Domestic demand	1 267	1 336	1 275	100.3	102.1	4.3	5.3	-4.5
Gross domestic investment	362	365	294	17.2	23.5	9.2	0.8	-19.5
Gross fixed investment	333	336	285	17.4	22.9	6.0	1.1	-15.1
Public	120	128	96	5.1	7.7	-5.7	7.4	-25.3
Private	213	208	189	12.3	15.2	14.0	-2.5	-8.8
Changes in stocks	29	29	8	-0.2	0.6			
Total consumption	905	971	981	83.1	78.6	2.5	7.2	1.1
General government	167	186	183	11.2	14.7	3.3	11.3	-1.7
Private	738	785	798	71.9	63.9	2.3	6.2	1.7
Exports of goods and services ^b	338	314	322	24.3	25.8	22.7	-7.0	2.5

Source: ECLA, on the basis of figures supplied by the Central Bank of Honduras.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for the purpose.

²It should be noted that the African palm begins to produce about five years after it is planted.

³To tackle this problem, the Tela Railroad Co. has offered to make resources in the amount of 120 million lempiras available for carrying out a flood control programme in the Sula Valley.

Table 3

**HONDURAS: GROSS DOMESTIC PRODUCT BY KIND
OF ECONOMIC ACTIVITY AT FACTOR COST**

	Millions of 1970 dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product^b	1 067	1 084	1 079	100.0	100.0	6.7 ^c	1.6 ^c	-0.4
Goods	542	542	544	53.4	50.3	6.1	-	0.4
Agriculture, hunting, forestry and fishing	303	295	298	33.2	27.5	7.4	-2.8	1.0
Mining and quarrying	19	20	20	2.0	1.8	3.6	3.4	-
Manufacturing	164	173	177	13.7	16.4	3.5	5.6	2.5
Construction	56	54	49	4.4	4.6	7.9	-2.9	-9.1
Basic services	118	122	121	9.5	11.2	7.5	3.8	-1.0
Electricity, gas and water	17	17	17	1.3	1.6	5.0	4.8	-
Transport, storage and communications	101	105	104	8.2	9.6	7.9	3.7	-1.2
Other services	410	423	416	37.1	38.5	7.3	3.1	-1.5
Wholesale and retail trade, restaurants and hotels ^d	170	176	172	15.8	15.9	7.9	3.5	-2.2
Ownership of dwellings	82	85	85	7.1	7.8	4.1	3.2	-
Community, social and personal services ^e	158	162	159	14.2	14.8	8.2	2.7	-1.5
Government services	43	44	44	3.5	4.0	6.0	4.2	-1.6

Source: ECLA, on the basis of official figures supplied by the Central Bank of Honduras.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cThese growth rates differ from those given in tables 1 and 2 because they measure different concepts of the product: at factor cost in this table but at market prices in tables 1 and 2.

^dIncludes financial institutions, insurance and real estate, except ownership of dwellings.

^eIncludes restaurants, hotels and business services.

Crops for the external market whose production expanded include coffee, which grew by 7%. The preceding year it had fallen by 9%, but in 1979 it had reached the highest level in the country's history. In this case, the increases in the volume produced were entirely due to the favourable rains, since the international prices fell markedly and the flow of credit slackened.

Sugar cane production also rose (6%), although the rate was slower than in 1979 and 1980 (21% and 12%, respectively). The loss of dynamism of this crop was due to the incidence of pests and diseases, such as rust and smut, since conditions in the external market were still encouraging. The continual increase in the production of this commodity, however, meant that the level achieved in 1981 was nearly 22% higher than that recorded in 1978.

Although no official estimates are available for the livestock sector as a whole, it may be noted that the production of both beef (of which a larger share went to the domestic market) and of milk grew by about 4%, continuing the upward trend of recent years. This was not enough, however, to satisfy domestic consumption, and imports were therefore necessary. Egg production, for its part, registered a slight rise of 3% which, in view of the rise of only 5% in 1980 and the drop of 27% in 1979, was not enough to regain the 1978 level.

During 1981 agriculture experienced tensions of various kinds. On the one hand, pressure to speed up agrarian reform continued through mass invasions of land, particularly in Olancho, on the northern coast and in Copán. The awards of land, which in the period 1973-1975 amounted to about 32 000, 47 000 and 37 000 hectares, respectively, were reduced to only 5 000 and 6 000 hectares in 1978 and 1979, despite pressure from the peasantry, which in 1979 formed the United Peasants Front of Honduras (FUNACAMH). Agrarian reform policy has increasingly come to favour

those farmers who are organized in co-operatives, rather than continuing grants of land as practised in the beginning of the agrarian reform process some years ago.

In addition, growing differences emerged between the Honduran Banana Corporation (COHBANA) and the co-operative already referred to (EACI), which has been exploiting the land acquired from Standard Fruit after the 1978 hurricane. The financial problems of COHBANA, which claims that it is running at a loss because of its high administrative costs, have caused a decrease in the assistance and the financial resources provided to the co-operative, which itself is passing through a difficult financial situation since it has had to work at a loss due to the unequal evolution of banana prices and production costs. This situation meant that when it took over in December 1980, the new management of the co-operative decided to cut its links with the Corporation, which sharpened the differences in the managerial policy of the enterprise to such a point that the Government intervened. This dispute was settled at the cost of splitting the co-operative, one part of which remained associated with COHBANA.

Finally, the National Agricultural Development Bank (BANADESA) also met with financial difficulties owing to the fact that many of its customers were slow in paying their debts. This situation forced it to have recourse to the Central Bank in order to remain in operation.

(iii) *Manufacturing.* In 1981 the growth rate of the manufacturing sector shrank to 2.3%, compared with 5.6% the year before. This deterioration in the evolution of the manufacturing product is attributable to the recessive situation prevailing in the economy, the decrease in the external demand (especially that of the Central American market), and the lack of financing to meet the requirements for working capital.

The traditional industries had a combined growth rate of close to 3%, while the branches producing intermediate goods and metal products and machinery showed decreases of 6% and 10%, respectively. Among the traditional industries, food and beverages production, whose weight in total manufacturing output is over 40%, grew by 4%. Sugar production and the

Table 4

HONDURAS: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Index of agricultural production (1975 = 100)	129.2	137.6	136.7	...	6.5	-0.7	...
Crop farming	131.5	142.4	138.7	...	8.3	-2.6	...
Stock-raising	123.3	126.9	132.4	...	2.9	4.3	...
Production of the main crops (thousands of tons)							
Maize	347	373	361	450	7.5	-3.2	24.7
Beans	44	39	36	39	-11.2	-7.7	8.3
Milled rice	26	30	36	37	15.4	20.0	2.8
Sorghum	53	40	43	59	-24.4	6.7	36.5
Bananas	1 234	1 273	1 232	1 080	18.7	-3.2	-12.3
African palm	58	63	89	117	8.6	41.3	31.5
Coffee beans	67	72	66	71	7.9	-9.4	6.8
Sugar cane	2 021	2 069	2 323	2 460	21.1	12.3	5.9
Ginned cotton	11	7	9	7	-30.1	18.9	-22.2
Indicators of stock-raising production							
Beef (thousands of tons)	46	49	52	54	6.5	6.1	4.4
Milk (millions of litres)	222	229	237	246	3.2	3.5	3.9
Eggs (millions of dozens)	16	13	14	14	-27.0	4.6	2.9

Source: ECLA, on the basis of data supplied by the Supreme Council for Economic Planning (CONSUPLANE).

^aPreliminary figures.

Table 5

HONDURAS: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Index of manufacturing production (1976 = 100)	121	128	135	136	5.9	4.8	1.4
Traditional industries	119	126	133	136	5.5	5.4	2.6
Food	123	134	136	141	9.2	1.3	3.3
Beverages	111	109	112	116	-1.7	2.1	4.3
Tobacco	122	127	119	123	4.6	-7.0	4.0
Textiles	125	128	151	144	2.6	18.1	-4.7
Clothing	115	120	155	154	4.4	29.1	-0.1
Leather	138	177	168	176	27.8	-4.5	4.2
Leather footwear	121	143	139	...	18.3	-2.7	...
Wood	112	104	102	111	-7.5	-1.3	8.6
Wooden furniture	104	117	139	139	12.1	18.8	-
Printing and publishing	117	122	144	...	4.3	17.8	...
Miscellaneous	84	77	104	...	-9.0	35.8	...
Intermediate industries	126	134	136	128	6.1	2.2	-6.0
Paper	120	137	133	122	14.1	-2.7	-8.3
Rubber	122	168	192	144	38.5	13.9	-25.1
Chemicals	135	148	154	133	9.9	4.0	-13.8
Petroleum refining	120	101	102	99	-15.5	-0.6	-2.6
Non-metallic mineral products	119	123	125	139	3.4	1.5	10.7
Machinery and metal-working	139	159	174	156	14.3	9.2	-10.0
Other indicators of production							
Consumption of electricity by industry (millions of kilowatts)	294	346	379	416	17.4	9.6	9.7

Source: ECLA, on the basis of data from CONSUPLANE and the Central Bank of Honduras.

^aPreliminary figures.

processing of marine products, under the incentive of good external market conditions, showed growth rates of 2% and 6%, respectively, while cattle slaughtering achieved a growth rate of 4%, in spite of the fact that sales to the exterior fell, and timber production rose by 9%. The textile industry, 20% of whose output is exported to the Central American subregion, showed a decline in production of 5% (see table 5).

The branches producing inputs were affected by the stagnation of economic activity (in the case of paper and the refining of petroleum) or else by the reduction of trade with the Central American countries (chemicals and rubber goods). Only the production of non-metallic minerals achieved a high growth rate of (11%), due to the entry into operation of the Piedras Azules cement factory, part of whose production will be exported.

The metal products and machinery industry, which accounted for barely 3% of total manufacturing production, suffered a sharp (10%) drop in activity because of the contraction in internal and external demand. In this case, the adverse situation affecting these branches, together with financial problems, led to the suspension of activities in two of the steel-rolling plants.

During the first half of the year, the industrial sector experienced financial restrictions, although to a lesser extent than in 1980, since the flow of new loans granted by the commercial banks shrank by 9%, and that from the development banks by 11%. Thus, in the first six months of 1981 the commercial banks increased their credit by nearly 6%, while that derived from development banks decreased by 30%.

The decline in the financing provided by the development banks was due to the difficulties being experienced by the National Investment Corporation (CONADI), the leading public finance

institution for the industrial sector. Thus, the long-term financial support provided by the Corporation for large private projects and the delay in the repayment of loans by a large number of the beneficiaries (with the result that the loans had to be refinanced) reduced the capacity of this agency to enter into new transactions. To this was added the problem of the high interest rates prevailing on international capital markets and the difficulty in obtaining loans from the international banking system because of its reluctance to lend money in the political conditions prevailing in the Central American subregion. Consequently, of the slightly more than US\$ 40 million in loans received by this agency from abroad in 1981, 75% was to be earmarked for the payment of its debts with various international financial institutions and only the remaining 25% was to be made available to industrial enterprises.

The National Industrial Development Fund (FONDEI), which serves small and medium-sized industry but has much smaller resources than CONADI, increased its loan disbursements by over 50% to nearly US\$ 9 million. Because of the nature of the Fund, the credit was intended for investment, with only 24% going to supplement working capital.⁴

The Honduran Forestry Development Corporation (COHDEFOR), which finances the development of the primary and secondary timber industry, reduced its flow of credit by 11%. Of the total amount of its resources used for credit purposes (US\$ 17 million), over 50% went towards the implementation of the Olancho Forest Industries Corporation (CORFINO), and the remainder was used to provide working capital for the sawmills. It should be noted that the implementation of the CORFINO projects was not obstructed by shortage of financing, since investment resources are available to them from the international banks. During the year, these resources (together with those from COHDEFOR) amounted to US\$ 30 million.

Among the projects being carried out by this Corporation, it is expected that the main sawmill in Bonito Oriental will start operation at 30% of its installed capacity in mid-1982, increasing to 70% of its installed capacity in 1983. The entry into operation of the sawmill will be held back somewhat by the delay in the port infrastructure works, although the primary and secondary road

Table 6

HONDURAS: INDICATORS OF CONSTRUCTION ACTIVITY

	Area constructed (thousands of m ²)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Construction permits^b							
Total	287	355	305	218	23.6	-14.2	-28.4
Central district	162	174	122	140	7.3	-30.1	15.2
San Pedro Sula and La Ceiba	125	181	183	78	45.0	1.2	-57.5
Residential	170	223	220	156	31.4	-1.1	-29.2
Central district	91	108	92	101	18.6	-14.5	9.6
San Pedro Sula and La Ceiba	79	115	128	55	46.1	11.3	-57.1
Non-residential	117	132	85	62	12.8	-35.6	-27.1
Central district	71	66	30	39	-7.0	-54.5	30.0
San Pedro Sula and La Ceiba	46	66	55	23	43.5	-16.7	-58.2
Production of cement (thousands of 42.5 kg bags)	2 951	6 785	7 229	8 005	129.9	6.5	10.7

Source: ECLA, on the basis of data supplied by the Central Bank of Honduras.

^aPreliminary figures.

^bPermits requested between 1 October of the previous year and 30 September.

⁴A loan for US\$ 30 million is being negotiated with the World Bank with a view to increasing the resources of this institution, which has been operating quite effectively.

infrastructure projects have been implemented on time. Thus, the project for the construction of Puerto Castilla, which was awarded to a foreign firm in 1978, has been stopped making it difficult to unload the machinery and equipment for the sawmill. This has not only represented a greater risk for the equipment but has also raised the costs considerably.

(iv) *Construction.* Primarily as a result of the substantial drop in gross fixed investment (-15%), the value added by this activity dropped sharply (-9%) after the decline already experienced the preceding year (-3%). The notable decrease in public investment (-25%) had a decisive effect on the drop in construction.

The construction indicators show that the total area constructed decreased by about 28% (87 000 square metres). The decline was similar in both residential and non-residential building, although in the latter it came on top of the market decline (-36%) experienced the preceding year (see table 6).

Construction trends varied in the main urban centres. Thus, San Pedro Sula and La Ceiba suffered an appreciable drop in building (-57%), which was the same in both of the sectors referred to. On the other hand, in the Central District the construction sector expanded by 15%, although this was not enough to compensate for the 30% decline registered the previous year.

Despite the fact that both production and external purchases of building materials diminished as a result of the downturn in the construction sector, cement production rose by 10% to nearly three times the 1978 production figure after the contraction the preceding year, thanks to the opening of a new plant, some of whose output will go to the external market.

During the year under review, because of the financial limitations of the public sector, public works policy was focused on the continuation of works already under way and financed, and the initiation of new works was postponed. Thus, the forest and energy projects and the related infrastructure works (highways and ports) continued to be implemented, while work also continued on the construction of the trunk road system and on maintenance.

Since housing construction did not have sufficient financial resources available to it, it is estimated that the accumulated deficit rose to nearly 400 000 units. On the one hand, the National Housing Institute (INVA) —the main public sector institution responsible for constructing and financing dwellings— had to cope with a difficult financial situation because of the low rate of recovery of the loans granted, while on the other, the municipalities of Tegucigalpa and San Pedro Sula, which have played an active role in the solution of housing problems, also encountered financial limitations, which made it necessary to suspend both housing construction and urban infrastructure projects.

3. The external sector

In 1981, as in the preceding year, the external sector continued to suffer from the various pressures due to the combination of the traditional structural imbalance and the effects of the political situation prevailing in Central America.

With regard to exports, the reduction in the external demand for bananas, the country's main export product, together with a drop in the exportable supply of this fruit, caused a decline in foreign exchange earnings. Although imports, for their part, tended to be contained because of the stagnation of the economy, there were negative repercussions caused by the factor payments related to direct investment and to the external indebtedness contracted, and this was aggravated by the rise in interest rates on international financial markets. All this meant that although the deficit on current account fell by 12%, it was still of considerable scale, representing 31% of the current foreign exchange earnings compared with an average of 25% for the period 1976-1979.

This imbalance on current account was compounded by the effects of the climate of uncertainty due to the political tension prevailing in Central America, which gave impetus to the flight of capital, whose amount is not precisely known, and had a negative effect on the credit flow from the exterior, thus finally causing an impact on the country's monetary reserves.

During the year the foreign trade policy was concentrated on overcoming the external imbalance by containing imports and limiting the amount of foreign exchange leaving the country. In April, as one of a number of measures taken under the Emergency Plan, a 10% tax was imposed on all foreign purchases, except in the case of machinery and equipment, raw materials, semi-finished goods and packaging, to which a tariff of only 5% was applied. Although there were other factors which did more to restrain the growth of imports, this tax made it possible to increase the amount collected in respect of foreign trade. On the other hand, this tax caused similar measures to be taken in response by some other Central American countries.

In September, in order to control the foreign exchange derived from exports, the Central Bank laid down regulations for the granting of export licences, establishing among other requirements, that the Bank must be presented with proof of the sale in Honduras of the foreign exchange derived from exports carried out previously. In addition, priority criteria were set, in accordance with the destination of the exports, for the purchase of the foreign exchange needed to pay for imports. Controls were also established to ensure that the exports declared in the licences and the amount of the imports for which foreign exchange was requested were not undervalued in the first case or overvalued in the second. Permits for external financing were also made subject to the obligation of selling to the Central Bank the foreign exchange collected by the borrowers. Finally, limitations were placed on sales of foreign exchange for travel expenses and other disbursements.

It should be noted that in spite of the shortage of foreign exchange (which made it slower to obtain) and the restrictions on its purchase, no large parallel market emerged, perhaps because it did not prove possible to enforce the provisions described above very strictly.

(a) *Merchandise trade*

(i) *Exports of goods.* During 1981, the current value of exports fell by nearly 2% compared with the preceding year. This was due to the 6% decline in the unit value, which was not compensated for by the 4% increase in the volume of exports (see table 7).

The main traditional exports were most strongly affected, since as a group they fell by 8%. On the other hand, external sales of other goods (non-traditional and other categories) rose by 14%, although this growth rate was lower than that of the preceding year, when they rose by 30%, on

Table 7
HONDURAS: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods						
Value	33.3	28.7	18.2	19.8	11.3	-1.7
Volume	13.7	0.6	13.1	22.8	-7.6	4.0
Unit value	17.0	28.0	4.5	-2.4	20.4	-5.5
Imports of goods						
Value	16.1	27.2	19.0	19.7	22.0	-7.8
Volume	7.2	14.3	13.5	11.8	3.4	-12.9
Unit value	8.4	11.3	4.9	7.0	18.0	5.8
Terms of trade (goods)	8.2	15.4	-0.4	-9.1	2.9	-11.0
Indexes (1970 = 100)						
Terms of trade (goods)	98.9	114.2	113.8	103.4	106.4	94.7
Purchasing power of exports of goods	118.5	137.8	154.9	172.6	164.5	152.2
Purchasing power of exports of goods and services	118.6	137.2	154.4	173.9	166.0	154.2

Source: ECLA, on the basis of official data.

^a Preliminary figures.

Table 8

HONDURAS: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	626	750	835	820	100.0	100.0	19.8	11.3	-1.7
Main traditional exports	491	563	606	559	77.9	68.2	15.0	7.8	-7.8
Bananas	142	200	228	215	42.0	26.2	40.8	14.1	-5.9
Coffee	211	197	204	185	14.5	22.6	-6.7	3.7	-9.2
Wood	42	42	36	41	9.1	5.0	-0.7	-13.8	14.9
Chilled meat	39	61	61	47	5.4	5.7	56.4	-	-22.2
Zinc	14	11	10	11	2.4	1.3	-19.3	-8.3	10.0
Shrimp and lobster	16	24	23	26	0.8	3.2	55.8	-3.7	9.4
Silver	11	17	31	22	3.1	2.7	56.9	82.5	-27.9
Ginned cotton	16	11	13	12	0.6	1.5	-27.6	18.6	-12.7
Other exports	135	187	229	261	22.1	31.8	38.5	22.5	14.0
Wood manufactures	9	17	16	12	0.3	1.5	77.7	-3.0	-27.2
Unrefined sugar	5	13	30	44	0.7	5.4	141.8	120.3	50.2
Soap	14	17	21	14	1.4	1.6	21.3	24.2	-34.1
Other products	107	140	162	191	19.7	23.3	30.8	15.7	17.9

Source: ECLA, on the basis of data supplied by the Central Bank of Honduras.

^a Preliminary figures.

average. This performance led to a change in the composition of the value of exports in favour of non-traditional goods: a trend which had been in progress since the preceding decade and which meant that the share of traditional exports fell from 78% in 1970 to 68% in 1981 (see table 8.)

Exports of bananas and coffee, which occupy first and second place in the list, being responsible for nearly 50% of the total value of exports of goods, experienced reductions of 6% and 9%, respectively. In the case of bananas, the decline in the value exported was due to a drop in the volume sold, since the unit value increased by 7%. Coffee beans, however, experienced a 28% drop in price which was only partly counteracted by the increase in the amount exported. During the year, the quota assigned to Honduras by the International Coffee Organization was reduced by 10%, which meant that the surplus produced had to be sold to countries not members of the Organization, which pay lower prices.

Other agricultural commodities whose export values dropped were meat (-22%) and ginned cotton (-13%). With regard to the former, the decline was due both to a drop in prices and the reduction in sales to the United States, the main purchaser of meat, while in the case of cotton, sales were limited because of the contraction in the exportable supply.

Minerals performed unevenly. The value of zinc exports rose by 10% as a result of a rise in the volume sold and in the price, but the current value of silver exports fell by 28%, owing primarily to the sharp price drop on the international market, since the volume exported rose compared with the previous year.

Timber, whose prices were more stable and even tended to rise, achieved a growth rate of 15% owing to the combined effect of an increase in the volume exported and in prices. Sales of shrimp and lobster to the exterior also developed positively, experiencing a rise of 9%, basically as a result of an increase in the volume sold.

As regards exports of manufactures, on the whole they showed positive growth, but the performance of each of the main products was dissimilar. Wood manufactures fell by 27%, as the trend of the preceding year grew more marked, while exports of soap to the Central American market fell by 34% in response to the contraction in external demand. On the other hand, the value of sugar exports increased by 50%, basically as a consequence of a rise in the unit value, since the volume grew by only 6% owing to production limitations.

Finally, the "others" category experienced a significant rise of 18% (higher than all goods but sugar) to US\$ 200 million. This figure, which represented 23% of total exports, was twice the value achieved as recently as 1978.

To analyse the exports of Honduras to Central America, data were available only for the first half of 1981. A comparison of these with the data for the same period in the preceding year indicates that there was stagnation, although the situation varied by countries. Sales to Guatemala grew by 9%, those to Costa Rica remained at the same level as the preceding year, and those to Nicaragua fell by 12%. This performance is to a large extent explained by the economic circumstances of each of the Central American countries, but some influence also seems to have been exerted by the 10% tariff on imported goods put into force by Honduras in May 1981, which gave rise to some reprisals on the part of other Central American countries. Thus, Nicaragua immediately applied similar taxes in respect of Honduran exports. Guatemala, for its part, took more drastic measures in that, as from 25 May, it applied the external tariff plus a 30% "economic stabilization" surcharge, which caused Honduras to prohibit the entry of Guatemalan goods. These goods were, however, admitted once again as from 15 June 1981, although Guatemala had neither withdrawn the measures taken nor made them more flexible. In the case of Costa Rica, that country's financial difficulties, compounded by the sharp fluctuations in the exchange rate, resulted in a decline in the level of Honduran sales.

(ii) *Imports of goods.* The value of imports of goods, which had risen by about 45% over the preceding two years, fell by 8% as a result of a 13% drop in the volume, since the unit value rose by 6% (see table 7). This reduction was related to the stagnation of economic activity, the drop in investment, the lack of growth of consumption and, to a lesser extent, the tariff increases adopted and the increase in the production of basic grains. Thus, 54% of the absolute drop in imports (US\$ 84 million) was attributable to smaller purchases of machinery and equipment, 19% to manufactures, 15% to foodstuffs and 12% to fuels and lubricants (see table 9).

Purchases of fuels and lubricants, as in the preceding year, represented 17% of total imports of goods, as compared with 11% in 1978. The composition of this group changed, with a reduction in imports of crude oil and a rise in those of processed products. During the first six months of the year, the price of petroleum increased by close to 13%.

During the first half of the year, imports from Central America increased by 15% in comparison with the same period in the preceding year. This pattern was in contrast with that

Table 9
HONDURAS: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	696	832	1 019	935	100.0	100.0	19.5	22.5	-8.2
Foodstuffs	51	57	86	72	9.6	7.8	11.0	51.1	-15.2
Beverages and tobacco	5	5	4	5	0.7	0.5	8.3	-15.4	15.9
Inedible raw materials	11	9	11	9	0.7	1.0	-8.6	15.6	-18.0
Fuel and lubricants	76	113	171	161	6.7	17.3	47.8	51.6	-5.6
Animal and vegetable oils and fats	7	7	12	11	1.3	1.1	-5.5	68.1	-7.8
Chemicals	107	138	154	156	13.0	16.7	29.3	12.1	1.0
Manufactured articles, classified by material	157	196	212	193	28.4	20.6	25.2	8.1	-8.9
Machinery and transport equipment	230	247	300	255	28.9	27.2	7.4	21.6	-15.2
Miscellaneous manufactures	49	58	67	71	10.5	7.6	18.1	15.8	5.3
Miscellaneous goods	3	2	2	2	0.2	0.2	-52.9	-6.2	20.0

Source: ECLA, on the basis of data from the Central Bank of Honduras.

^aPreliminary figures.

followed by purchases from the rest of the world which, during the same period of time, fell by a similar proportion. All the Central American countries with which Honduras trades managed to increase their sales to this country (Guatemala, 10%; Nicaragua, 35%; and Costa Rica, 17%). Since imports evolved more rapidly than exports, the trade deficits of Honduras with Guatemala and Costa Rica increased by 16% and 68%, respectively, while the trade surplus with Nicaragua fell by 27%.

(iii) *Terms of trade and purchasing power of exports.* After having remained in 1979 and 1980 at a similar level to that attained in 1970, the 1981 terms of trade in goods were 11% lower than the preceding year (see table 7).

This deterioration was the result of a decline in the unit value of exports (-6%) and a similar rise in that of imports, basically as a reflection of the drop in coffee prices on the international market, which was prevented from having a still greater effect by the increases in the prices of bananas and, to a lesser extent, timber and sugar. The purchasing power of exports of goods and services, for its part, which was also negatively affected by the drop in the volume exported, fell by 7% in comparison with the preceding year.

(b) *Services trade and factor payments*

The balance of trade on services improved slightly in that there was a decrease of 3% in the traditional deficit of Honduras. This was due to the decrease in the volume of trade, which affects the amount of freight and insurance paid, and the levelling out of travel expenditure, which in previous years had shown negative growth (see table 10).

Factor payments rose by 19% — a similar figure to the 20% rise of the preceding year — as a consequence of an increase of close to 60% in interest payments, since remittances of profits declined by 19%. The marked growth of interest payments abroad, which more than doubled between 1979 and 1981 to reach US\$ 110 million, was due to the growth of public sector commitments and the increase in interest rates in international markets.

(c) *The current account position and its financing*

The deficit on current account, which in 1980 was twice what it had been in 1978, fell by 12%, amounting to nearly US\$ 300 million. Its relative size in relation to exports of goods and services thus fell from 36% to 32%.

The flow of long-term capital, which had amounted to US\$ 240 million the preceding year, experienced a fall of close to 23% in 1981, mainly attributable to a 25% contraction in the "other long-term capital" item, since direct investment increased. This reduction was reflected in an increase of close to 6% in the basic balance, which had been in deficit since 1979 (see table 10). Consequently, in order to supplement the financing of the net current account expenditure it was necessary to draw on the country's reserves, which decreased by rather more than US\$ 70 million.

The International Monetary Fund granted credit support to Honduras for the equivalent of US\$ 23 million, 55% of it in net drawings on the ordinary credit tranches and the rest under the Expanded Facility. In the middle of the year the agreement with the International Fund, which had come into operation in 1979 for a duration of three years and was for a total of over US\$ 50 million, was renegotiated. The use of these resources is subject to the obligation to put a number of measures into effect with a view to lessening the disequilibria in the balance of payments and public finances.

(d) *The external debt*

In spite of the comparative rigidity of the international markets in recent years, the resulting rise in the cost of loans, and the reticence of private and public creditors due to the tension existing in the Central American subregion, the total external debt rose by 14%. Although this rise was not so high as that which occurred the previous year (26%), it brought the debt up to twice its 1978 level. For this reason, the coefficient of debt servicing to exports of goods and services rose again, this time to 24% (see table 11).

Table 10

HONDURAS: BALANCE OF PAYMENTS

(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	455	582	689	833	929	916
Goods FOB	412	530	626	750	835	820
Services ^b	43	52	62	83	94	96
Transport and insurance	16	19	22	30	35	35
Travel	12	14	17	21	24	25
Imports of goods and services	515	656	778	932	1 126	1 052
Goods FOB	432	550	655	783	956	881
Services ^b	82	105	123	148	171	171
Transport and insurance	40	54	64	79	96	88
Travel	16	21	23	29	31	25
Merchandise balance	-21	-20	-28	-33	-121	-61
Trade balance	-60	-74	-89	-98	-198	-136
Profits and interest	-58	-69	-86	-120	-144	-171
Profits	-34	-39	-47	-68	-75	-61
Interest	-24	-30	-38	-52	-68	-110
Unrequited private transfer payments	3	4	5	7	8	12
Balance on current account	-115	-139	-170	-212	-334	-295
Unrequited official transfer payments	10	10	13	14	14	16
Long-term capital	104	149	176	167	240	184
Direct investment	5	9	13	10	5	8
Portfolio investment	-	-	-1	-	-	-
Other long-term capital	98	140	163	157	235	176
Official sector ^c	54	34	50	60	50	...
Loans received	68	57	73	78	85	...
Amortization payments	-12	-16	-20	-19	-30	...
Commercial banks ^c	1	13	1	1	-10	...
Loans received	6	19	17	9	-	...
Amortization payments	-5	-6	-17	-23	-10	...
Other sectors ^c	43	94	112	96	195	...
Loans received	71	134	160	205	272	...
Amortization payments	-28	-41	-43	-95	-77	...
Basic balance	-1	20	19	-32	-80	-95
Short-term capital	41	53	-21	68	17	27
Official sector	1	11	-6	-1	-4	...
Commercial banks	15	10	-17	43	-8	...
Other sectors	25	32	2	27	29	...
Errors and omissions (net)	-2	-7	13	-11	-15	-3
Balance on capital account	153	205	180	237	256	223
Global balance	38	66	10	25	-77	-72
Total variation in reserves ^c (- sign indicates an increase)	-38	-66	-10	-25	73	72
Monetary gold	-	-	-	-	-	-
Special Drawing Rights	2	-1	1	-6	10	-2
IMF reserve position	-	-	-8	-	8	-
Foreign exchange assets	-36	-48	3	-19	41	50
Other assets	-4	-2	-	-	-1	-
Use made of IMF credit	-	-14	-5	-	15	23

Source: 1976-1980: International Monetary Fund, Balance of Payments Yearbook, (magnetic tape, March 1982); 1981: ECLA, on the basis of official data.

^aPreliminary figures.

^bServices also include other official and private transactions, but not profits and interest.

^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

4. Prices and wages

The average variation of the consumer price index during the months between January and November 1981 was 9.4% —a much lower rate than the 18.1% recorded the previous year. In spite of this slackening in the growth of prices, the level reached was still higher than that of the period 1974-1978 (6.8% on average), which seems to point to the presence of a permanent inflationary dynamic difficult to overcome in the short term in view of the high degree of dependence on external variables (see table 12).

The decisive element in this drop in the growth rate of prices was the slowdown in the rise of food prices to 7.5%, compared with 17.1% the year before. This served to offset the faster increases in the prices of other categories with significant weight in the general index, such as clothing and housing, which grew faster than the overall average (14.4% and 10.4%, respectively).

During the first five months of the year, the gradual but steady rise in the prices of food and housing, which together account for 72% of the overall index, was responsible for the increase of close to 6% in the global indicator. As from June, food prices began to show negative growth, which slowed down the increase in the general index, but in the last two months of the year their growth again became positive. The slower rise in prices is largely attributable, in the case of food, to the increase in the production of basic grains encouraged by the government policy to develop these crops.

Table 11

HONDURAS: INDICATORS OF EXTERNAL INDEBTEDNESS^a
(Millions of dollars)

	1976	1977	1978	1979	1980	1981 ^b
1. Total external indebtedness ^c	547	688	846	1 000	1 261	1 439
Public debt and State-guaranteed private debt	495	646	799	954	1 204	...
Private debt not guaranteed by the State	52	42	47	46	57	...
2. Servicing of external debt	75	105	138	198	194	220
Amortization payments	47	71	90	138	113	138
Interest payments	28	34	48	60	81	82
3. Servicing of external debt, as a percentage of exports of goods and services	16.5	18.0	20.0	23.7	20.9	24.0

Source: ECLA, on the basis of data from the Central Bank of Honduras.

^aEnd-year balance of debts having a term of over one year.

^bPreliminary figures.

^cCorresponds to the disbursed debt.

Table 12

HONDURAS: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981
Variation December to December						
Consumer price index	5.6	7.7	5.3	22.5	11.5	9.6 ^a
Food	4.5	10.5	5.5	20.3	12.3	5.9 ^a
Variation between annual averages						
Consumer price index	5.1	8.4	5.7	12.1	18.1	9.4 ^b
Food	3.9	11.3	6.2	11.4	17.1	7.5 ^b

Source: ECLA, on the basis of data supplied by the Central Bank of Honduras.

^aVariation November 1980 - November 1981.

^bVariation between average index January - November 1981 with respect to index January - November 1980.

It should also be noted that during 1981 the unit value of petroleum imports rose quite moderately: by 15% in contrast with 37% the previous year.

There were, however, some elements which helped to drive prices up, the most important of them being the application, as of May, of a 10% tax on imports of manufactures and 5% on those of inputs, about 40% of which was reflected in the basic basket of goods from which consumer prices are calculated.

At the beginning of the year, in the face of the pressure exerted by merchants and producers for suppression of the controls on basic commodity prices, the Government installed a mechanism known as the "automatic price fixing system based on the profitability of own funds", which, in addition to making it easier to pass on increases in costs, determined the magnitude of price increases on the basis of the profit ratio.³

As of May, the Government decreed a rise in the official minimum wages by different amounts for each of the productive sectors. This rise, which in all cases exceeded the growth in consumer prices, permitted an increase of nearly 9% in the average real wages. By sectors, the situation was very uneven, however: the real wage in the agricultural sector rose by 17%, which represented a total improvement of nearly 40% over the past five-year period, but in the handicrafts sector, trade and services the increase was close to 8%, and in manufacturing, mining and construction it was about 5% (see table 13).

The improvement was, however, only relative, since in 1978 there had been a real deterioration in wages which later increases did not succeed in counteracting. This was true of manufacturing, mining, commerce and services, where real wages in 1981 were still lower than those in 1976 (by 6% in the first two sectors and by 8% in the last two). In handicrafts and construction, the real wages were barely equal to those of 1976. Only in the case of agriculture, where the trade union organizations play a more important role, were real wages higher than those of 1976, and even so it must be borne in mind that in absolute terms they are the lowest in the national scale (15% lower than the average wage and 27% lower than the maximum wage).

Table 13

HONDURAS: EVOLUTION OF OFFICIAL MINIMUM WAGES^a

	Indexes (1976 = 100)				Growth rates			
	1978	1979	1980	1981	1978	1979	1980	1981
Official minimum wages								
Nominal								
Agriculture	100	150	179	228	-	50.0	19.3	28.2
Manufacturing and mining	100	125	135	155	-	25.0	8.2	15.1
Handicrafts	100	127	140	165	-	26.7	10.8	18.2
Construction	100	133	147	168	-	33.3	10.3	14.8
Commerce and services	100	120	130	153	-	20.0	8.5	17.8
Real								
Agriculture	87	117	118	138	-5.4	34.0	0.7	17.1
Manufacturing and mining	87	97	89	94	-5.4	11.5	-8.3	5.1
Handicrafts	87	99	92	99	-5.4	13.0	-6.2	7.9
Construction	87	104	97	101	-5.4	19.0	-6.7	4.8
Commerce and services	87	93	86	92	-5.4	7.0	-7.9	7.7

Source: ECLA, on the basis of official decrees on minimum wages.

^aThe estimated minimum wages correspond to the average for each year in the Central District and San Pedro Sula. As from 1974, updating of minimum wages was decreed in december 1978, May 1980 and May 1981.

³This automatic system eliminated the need for the economic studies which the Department of Domestic Trade used to prepare, thus avoiding delays which meant losses for those selling goods. The mechanism consists of setting a percentage profit ratio on the capital invested and paid up by enterprises.

Table 14
HONDURAS: MONETARY BALANCE

	Year-end balance (millions of lempiras)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Money	475	546	605	579	14.9	10.9	15.2
Currency outside banks	210	264	269	275	25.9	1.9	12.2
Demand deposits	265	282	336	304	6.2	19.2	18.1
Factors of expansion	1 620	1 790	1 897	2 013	10.5	6.0	10.9
Foreign assets (net)	266	232	110	-6	-12.8	-52.5	-107.2
Domestic credit	1 354	1 558	1 787	2 019	15.0	14.7	17.0
Government (net)	167	188	287	405	12.2	52.9	66.3
Official entities	-15	10	35	9	165.8	259.4	-51.3
Private sector	1 201	1 360	1 465	1 605	13.2	7.8	9.7
Factors of absorption	1 145	1 244	1 292	1 434	8.6	3.9	5.9
Quasi-money (savings and time deposits)	462	499	527	584	8.0	5.7	12.8
Bonds	78	102	68	69	30.7	-32.9	-9.7
Long-term foreign borrowing	395	434	469	496	9.9	8.0	5.5
Other items (net)	210	209	228	285	-0.7	9.0	14.9

Source: ECLA, on the basis of data supplied by the Central Bank of Honduras.

^aEnd-November figures.

^bGrowth rate November 1980 - November 1981.

No information was available which could be used to determine the evolution of the real wages of workers whose wages are not subject to government control. Some indirect indicators, however, such as per capita consumption (which fell by 3%) make it reasonable to assume that they fell.

5. Monetary and fiscal policy

(a) *Monetary policy*

During 1981 the monetary and financial system of Honduras reflected the recession outside and the downward trend in investment as well as the negative impact of these factors on the level of economic activity and on the fiscal balance.

The drop in international reserves was due to a combination of exogenous factors which were reflected in a considerable imbalance of US\$ 295 million on the current account (although this imbalance was not so big as that of the previous year) and in a decrease in the flow of long-term capital for financing this deficit (see table 14).

The indebtedness of the public sector evolved in different ways. Thus, while the Government continued to increase its indebtedness considerably (66%), the public institutions drastically reduced theirs (-51%). In the case of the Government, the growth referred to is attributable to the increase in the public deficit (although at a much lower rate than the preceding year), since the external aid received was not sufficient. It should be noted that the demand of the public sector for credit has become much larger in recent years, with its share rising from 12% of total credit in 1977 and 1978, to 16% in 1980 and 20% last year.

In spite of the fact that, during the year, the credit granted to the private sector was limited by the greater demand for credit resources on the part of the Government and thus only grew by 10% (similar to the growth rate of the product at current prices), this nevertheless does not seem to have been a factor of prime importance in the decline in investment, although it may have affected the demand of enterprises and individuals for working capital.

In 1981 savings and time deposits grew by 13%, i.e. twice as fast as the previous year. This was the result both of the greater increase in the money supply and of the preference on the part of the public for financial rather than real investments, in view of the climate of uncertainty prevailing because of the political situation in Central America.

In order to solve the problems arising from the current situation, a number of monetary and financial measures were taken with the objective of limiting public sector credit, preventing the flight of capital, promoting savings, rationalizing the use of credit and increasing the flow of external loans.

In May a limit of 110 million lempiras was set on the financing provided to the central government by the banking system, but this measure had no effect since in the subsequent months the Government had an overdraft in the Central Bank. In addition, the net increase in the utilization of external loans with a term of less than 10 years on the part of the public sector and its financial institutions was set at US\$ 50 million, and a minimum increase of US\$ 59 million was laid down for net financing of the banking system by the Central Bank during 1981, including rediscounts for productive purposes.

In order to increase savings and time deposits, the limits on the interest rate and on the amount of savings deposits were eliminated.

The rate of interest for loans granted by the banking system using resources from the exterior was set 3.5 points above the base rate (LIBOR). The maximum rate authorized for loans made by banking institutions with domestically-obtained resources was set at 19%. Towards the end of the year, however, in view of the fact that the margin between the cost of capital in the international market and the interest rate applicable to loans made with external financing was too small to provide a satisfactory profit, the interest rates for this type of transaction were allowed to float.

Also in the last months of the year, the Central Bank decided not to enforce the conditions laid down previously for the authorization of external loans to the private sector (enterprises and banks).

Finally, with the objective of encouraging the granting of credits to basic activities, differential rediscount rates were set. For basic grains, this rate amounted to 10%, while the maximum rate of interest applicable was set at 16%.

(b) *Fiscal policy*

The fiscal deficit, which had increased by the very large amount of 73% during the preceding year, rose by a little over 2% in 1981 to 496 million lempiras (see table 15).

The whole-year results are attributable to a slight decrease in income (2%), occurring at the same time as a slight drop in total expenditure. This decrease, which was the first in real terms for the past seven years, highlighted the fact that little was done by the public sector to compensate for some of the loss of dynamism suffered by external commerce and for the drop in private investment.

The contraction experienced by current income was due to a decrease of 21% in revenue from direct taxes as a result of the changes in the system of collecting the tax on profits.⁶ This had increased income in 1980, but in 1981 this returned to its normal level. As for indirect taxes, these rose by 10% (a slightly higher rate than that of the previous year) thanks to foreign trade tax revenue, whose growth rate (12%) was higher than in the preceding year (8%). Since the value of foreign trade fell in 1981, this increase is attributable to the application of the 10% import tax.

Current expenditure, for its part, grew by 9% owing to a 22% increase in salaries and wages, the remaining expenses having fallen by 2%: much less than the 64% decrease of the preceding year. It should be borne in mind that interest payments, which have been acquiring increasing importance, are included in this category.

⁶In December 1979, when the profits tax law was reformed, changes were made in the system of collection. Thus, when the mechanism for the advance payment of taxes on the basis of the income declared in the three preceding years was put into effect, the authorities received almost all the taxes for 1979 and 1980 in a single year. When the new system settled down, however, the amount collected in 1981 fell.

The dissimilar growth of current income and expenditure resulted in a serious deterioration in current savings. Thus, during the year savings fell by 85 million lempiras, resulting in a year-end deficit of over 50 million lempiras.

The sharpest restriction on expenditure occurred in connection with capital expenses, which fell by 14% in contrast with an increase of 34% in 1980. Real investment, which had grown by 27% the preceding year, fell by 31%, and transfers to quasi-autonomous agencies of the public sector, which had doubled in 1980, decreased dramatically. Only the expenditure for interest payments on the debt increased (15%), trebling the growth rate of the preceding year.

To finance the fiscal deficit (496 million lempiras), recourse was had to external resources for over 50% of the amount.

Real public investment was concentrated in infrastructure projects, of which nearly 40% related to energy and nearly 25% to transport. The remaining productive activities received only 7%, nearly all of which went to the agricultural sector. The social sectors received 18%, 70% of which was earmarked for health, 23% for education and the remainder for housing construction.

In 1981 the restrictions on public sector resources aggravated the financial problems of some of the quasi-autonomous institutions, since their inadequate savings meant that their new investment projects were dependent on transfers from the central government. With regard to the financial institutions, the increase in uncollected loans and the size of their liabilities caused them to decrease their loan operations (as in the case of the Honduran Industrial Development Corporation (CONADI)) or to have recourse to the Central Bank, which was the expedient resorted to by the National Agricultural Development Bank (BANADESA). It should be noted that at the end of the year, the State took over the unpaid loan commitments of the quasi-autonomous corporations with financial institutions abroad. At the same time consideration began to be given to the application of reforms for improving the financial situation. In addition, an office was created to supervise the operations of the independent and quasi-autonomous agencies.

Table 15

HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^b
1. Current income	541	632	758	741	16.7	20.1	-2.2
Tax revenue	503	574	697	695	14.1	21.4	-0.3
Direct	128	153	236	186	19.8	54.4	-21.2
Indirect	375	421	461	509	12.2	9.5	10.4
On foreign trade	230	257	278	312	11.6	8.2	12.2
Non-tax revenue	38	58	61	46	50.9	6.4	-24.6
2. Current expenditure	471	527	727	795	11.8	38.0	9.4
Wages and salaries	258	299	353	430	15.8	18.1	21.8
Other current expenditure	213	228	374	365	7.0	64.0	-2.4
3. Current saving (1-2)	70	105	31	-54	49.9	-70.5	...
4. Capital expenditure	371	385	516	442	3.7	34.0	-14.3
Real investment	172	152	193	134	-11.2	27.0	-30.6
Debt amortization payments	70	88	93	107	25.0	5.7	15.1
Other capital expenditure	129	145	231	201	12.1	59.3	13.0
5. Total expenditure (2+4)	842	912	1 243	1 237	8.3	36.3	-0.5
6. Fiscal deficit (1-5)	301	280	485	496	-7.0	73.2	2.3
7. Financing							
Domestic financing	117	123	219	239	5.1	78.0	9.1
External financing	184	157	266	257	-14.8	69.4	-3.4

Source: ECLA, on the basis of data supplied by the Central Bank of Honduras.

^aPreliminary figures.

^bRate of variation November 1980 - November 1981.

The measures adopted by the Government to cope with the financial difficulties were basically directed towards reducing public expenditure, which rose only slightly. The increase in operating expenses was nearly compensated for by the decrease in capital expenditure. In order to increase income, the only measure taken apart from the application of the 10% tariff on the value of imports and the 5% tariff on external purchases of machinery and inputs was a sales tax reform, under which the tax on alcoholic beverages and manufactured tobacco products was increased to 6%. It should be noted that at the end of 1981 the income tax law was modified by instituting, *inter alia*, changes in the amount of the taxable income, but these will only come into effect during the coming year.

JAMAICA

1. Recent economic trends: Introduction and summary

In 1981 the Jamaican economy showed a modest but definite reversal of the continued decline in output which it had suffered since the early 1970s. The gross domestic product (GDP) expanded 2% in real terms—the first such increase since 1973 (see table 1), and at the same time inflation decelerated sharply, from almost 30% in 1980 to less than 5% in 1981, while unemployment also went down, even if only slightly.

Though the 1981 recovery was slight indeed, especially in view of the wide gap to be closed, it is certainly impressive given the systematic decline in virtually all indicators which had beset the economy for the previous seven years (see figure 1).

Thus, as of 1973, after 15 years of close to 3% growth in per capita income, the Jamaican economy entered into a tailspin, with per capita income falling for eight consecutive years, at an average rate of 3% per year, so that in 1980 per capita income was one-fourth below its 1972 peak, or virtually where it had stood 20 years earlier.

Moreover, whereas in the earlier 1970s domestic savings were equivalent to 20% of the gross domestic product, in 1980 they had fallen to 6%, less than external savings.

The composition of external capital flows in turn shifted heavily from direct investment in the early 1970s (principally related to the cycle of bauxite expansion) to official borrowing in the period after 1973. As a result, the level of foreign debt, which in 1972 was actually less than the international reserves, increased eightfold by 1980, exceeding 50% of GDP (as opposed to just over 10% in 1972). At the same time, the level of foreign exchange reserves fell from the equivalent of 2.4 months of imports in 1972 to 0.8 months in 1980. Finally, the central government's fiscal deficit rose from 5% of GDP in 1972 to over 12% in 1980, having reached 19% in 1976, while inflation (which was under 10% in 1972) was almost 30% in 1980. In short, a moderately robust economy in the early 1970s had gone into a tailspin after 1972, showing disequilibria on the principal fronts: negative growth of output, sharp declines in savings, heavy indebtedness, and high inflation.

It is with this negative backdrop in mind that the 1981 experience is especially remarkable. Yet important as is the reversal—especially as regards growth and inflation—there are also signs that it may be due to transitory factors (IMF lending) rather than to structural changes which would permit strong sustainable growth.

There is some consensus that at the root of the failures of the Jamaican economy from 1973-1980 was the over-expansion of public sector expenditures, which grew from 15% of GDP in 1972 to over 30% in 1980. Given Jamaica's heavy dependence on the external sector (imports and exports each account for some 50% of GDP), a strongly expansive domestic policy would have short-lived benefits for consumption (these peaked in 1975); rather it would quickly tend to generate balance-of-payments deficits and inflation. Since subsequent efforts at stabilization succeeded in controlling imports via quantitative restrictions but failed to curb public sector growth, private sector growth and exports were hamstrung.

To the extent that private sector growth was limited by supply bottlenecks arising out of quantitative restrictions, the elimination of the latter in 1981 contributed to this turnaround. Similarly, to the extent that uncontrolled government deficits adversely affected private sector activity and fired inflation, their reduction in 1981 no doubt contributed to the sharp decline in inflation.

Nevertheless, two structural problems remained. The balance of payments was strongly in deficit in 1981, with the negative balance on current account equalling almost 14% of GDP, close to

double the 1980 deficit. Obviously, without the IMF credits import bottlenecks would have continued to plague the economy, for net private capital flows to Jamaica were far less than expected and the volume of exports contracted. More significantly, though the fiscal deficit was reduced, public sector savings were nonetheless negative; ominously, private savings fell to a historic low of 4% of GDP in 1981, considerably down from 1980's 8.5%. In short, the 1981 rise in investment was wholly due to the increase in external savings, since domestic savings fell by 50% to only 3% of GDP. Consequently, it may well be doubted whether private sector confidence has been restored, for IMF funding clearly took the place of domestic savings rather than generating an increase in them, thus suggesting that the private sector adopted a wait and see attitude rather than risking its own resources.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at factor cost (millions of dollars at 1970 prices)	1 384	1 298	1 298	1 294	1 275	1 206	1 230
Population (millions of inhabitants)	2.04	2.07	2.10	2.13	2.16	2.19	2.22
Per capita gross domestic product (dollars at 1970 prices)	678	627	618	608	590	551	554
Annual growth rates							
B. Short-run economic indicators							
Gross domestic product	-1.6	-6.2	-	-0.4	-1.5	-5.4	2.0
Per capita gross domestic product	-3.1	-5.5	-1.4	-1.6	-3.0	-6.6	0.5
Gross income ^b	2.9	-9.3	1.0	-4.4	-4.8	-3.6	1.0
Terms of trade (goods and services)	19.4	-9.7	3.3	-10.9	-8.9	4.3	-2.6
Current value of exports of goods and services	6.7	-15.4	7.1	16.4	4.5	16.3	2.9
Current value of imports of goods and services	21.1	-13.8	-17.5	13.6	16.2	15.2	20.9
Consumer price index							
December-December	15.7	8.3	14.1	49.4	19.8	28.6	4.7
Variation between annual averages	17.5	9.7	11.2	34.9	29.1	27.3	12.6
Money	20.2	2.4	37.6	17.6	7.6	35.5	-12.9
Wages and salaries ^c	6.2	4.5	-7.8	-14.0	-12.0	...	...
Rate of unemployment ^d	20.5	22.4	24.2	24.5	27.7	27.3	25.9
Current income of government	23.8	-5.3	7.5	59.0	7.8	-2.3	41.1
Total expenditure of government	32.5	21.1	3.1	36.9	11.9	14.2	17.0
Fiscal deficit/total expenditure of government ^d	31.4	46.3	44.0	34.9	37.2	46.2	40.0
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-161	-135	71	81	-64	-76	-323
Balance on current account	-288	-307	-47	-61	-149	-175	-338
Variation in net international reserves	-39	-189	-15	-62	-166	81	-180
External debt ^e	706	965	1 052	1 236	1 495	1 607	1 800

Source: CEPAL, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cReal wages and salaries.

^dPercentage.

^ePublic debt (including State-guaranteed private debt) and use of IMF credit (disbursed only).

Table 2

JAMAICA: TOTAL SUPPLY AND DEMAND

	Percentage breakdown			Growth rates	
	1970	1980 ^a	1981 ^a	1980 ^a	1981 ^a
Total supply	137.4	153.4	158.8	-4.9	4.8
Gross domestic product	100.0	100.0	100.0	-4.4	2.0
Imports of goods and services ^b	37.4	53.4	58.8	-3.4	12.3 ^c
Total demand	137.4	153.4	158.8	-4.9	4.8
Domestic demand	104.2	103.8	109.4	-12.9	7.5
Gross domestic investment	31.6	15.7	17.0	-22.9	10.2
Gross fixed investment	31.4	14.8	15.3	-22.5	5.4
Changes in stocks	0.2	0.9	1.7	-29.4	100.0
Consumption	72.6	88.1	92.4	-11.1	7.1
Public	11.7	21.0	19.8	-3.8	-3.7
Private	60.9	67.1	72.6	-13.8	11.5
Exports of goods and services	33.2	49.6	49.4	22.1	-1.3

Source: World Bank and IMF.

^aProvisional figures.

^bThe external sector data used in this table differ from those used in the table on balance of payments because the base years differ.

^cReconciled with growth rates obtained from the balance of payments.

In short, important as was the turnaround of the Jamaican economy in 1981, and significant as was the greater control exercised over government deficits and inflation, sustainable growth calls for considerable increases in exports and domestic savings, neither of which was yet forthcoming.

2. Trends in economic activity

(a) *Global trends*

Three trends characterized the period of the 1970s (see table 2): (i) as a consequence of the expansive policy of the period and the decline in GDP, the share of public sector consumption in GDP rose sharply, from 12% in 1970 to 21% in 1980; (ii) correspondingly, domestic savings plummeted (falling from 20% in 1970 to 6% in 1980), as did investment (which fell to below 16% in 1980: half its 1970 share); and (iii) there was a strong increase in the share of both exports and imports in the economy, reflecting not so much growth in their volume as the rise in their relative prices and the decline of the GDP.

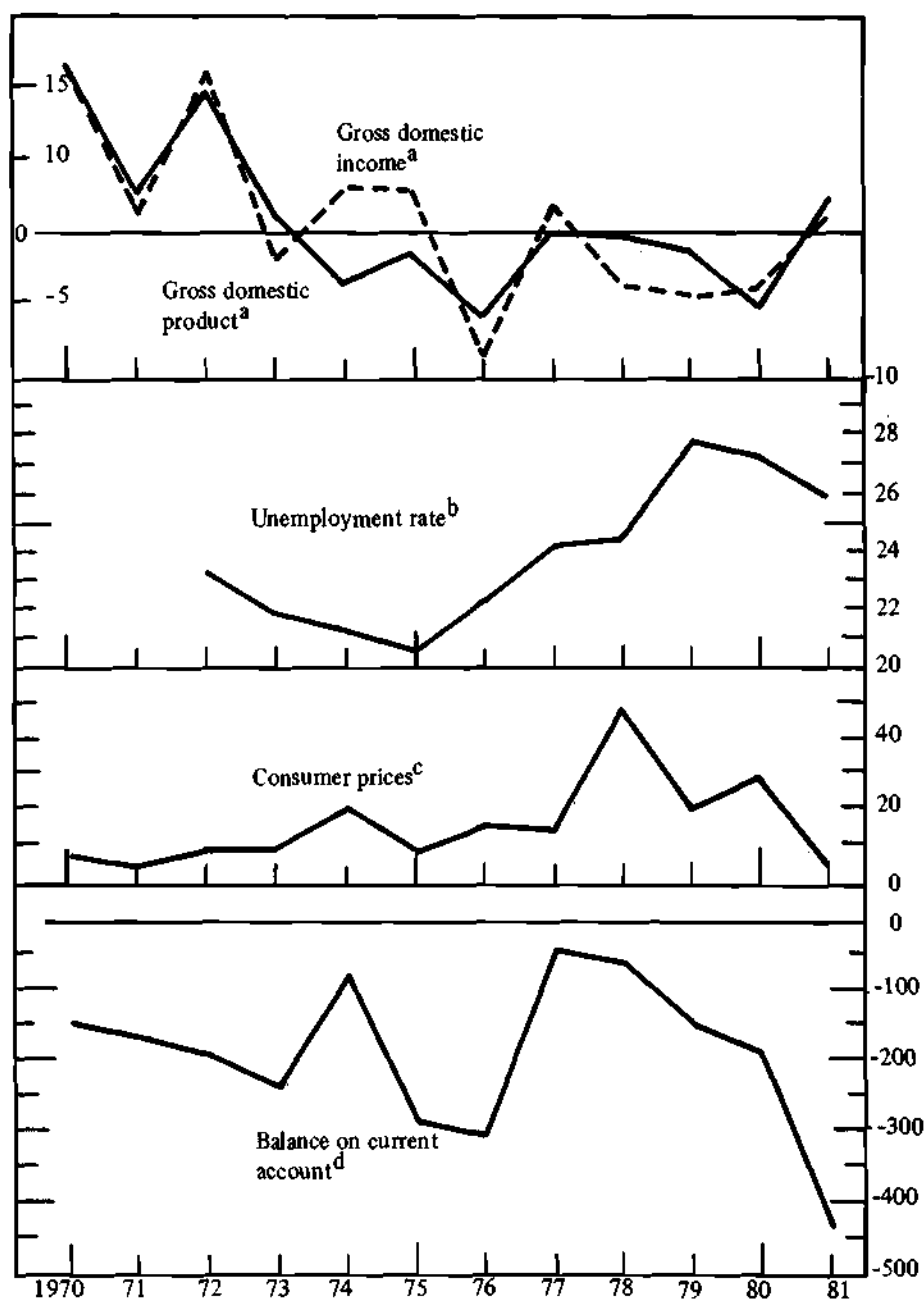
In 1981 the increase in public sector consumption was reversed, as was the decline in investment. Yet, significantly, domestic savings declined even further, while the trade deficit clearly worsened: both phenomena which reflect the impact of the IMF's lending programme.

Though the recovery was not at all strong, every sector of the economy expanded (see table 3). Because of its immediate sensitivity to the level of domestic demand, which grew 7 1/2% in 1981, the fastest growth was shown by the commerce and finance sector (7%), followed by agriculture (4%), real estate and business services (3%), and construction (2%).

(b) *Evolution of the main sectors*

(i) *Agriculture.* After two years of negative growth, by approximately 10% and 7% respectively, agricultural GDP grew 4% in 1981. Although an improvement on the previous year's output, this was well below the potential of the sector. This underutilization of potential is all the

Figure 1
JAMAICA: MAIN ECONOMIC INDICATORS



Source: CEPAL, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate.

^cPercentage variation December to December.

^dMillions of dollars.

more serious given the relative scarcity of land in Jamaica and the fact that well over one-third of the labour force is employed in agriculture.

Agricultural output for domestic consumption grew between 3% and 4%, with vegetables, pulses, spices, potatoes and fruit contributing significantly to this expansion (see table 4). Export-oriented agriculture showed a far more varied performance, since pimento, coffee, and cocoa grew strongly, but the two principal export crops (sugar and bananas) did poorly. Similarly, livestock production was mixed, with beef and poultry production declining, whereas hog production increased smartly.

All in all the performance of the agricultural sector, though improved, continued to be hampered by recurring problems: adverse weather conditions (including residual setbacks arising from the 1980 Hurricane Allen), unsatisfactory cultivation practices, praedial larceny, and inadequate transport facilities. The shortage of transport units to guarantee an uninterrupted flow of raw materials to the factories and inadequate milling operations continued to militate against increased sugar production.

Banana production suffered setbacks due to the late execution of the Jamaica Development Bank's credit programme to banana farmers, rejection of a high percentage of fruit at boxing plants and the delay in the commencement of regular shipments.

Several new agricultural policy initiatives were introduced during the year. These include the development of a national agriculture and food marketing policy, the establishment of incentives to encourage increased production, the introduction of a new system of zoning, the enactment of a major soil conservation and afforestation programme, the enlargement of inland fisheries,

Table 3
JAMAICA: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of 1974 Jamaica dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981	1971	1981	1979	1980	1981
Total gross domestic product	1 986	1 957	1 851	1 889	100.0	100.0	-1.5	-5.4	2.0
Goods	808	771	697	710	45.8	37.5	-4.6	-9.6	1.7
Agriculture	188	170	157	164	8.2	8.7	-9.7	-7.4	4.2
Mining	150	148	163	165	7.3	8.7	-1.6	9.9	1.3
Manufacturing	332	316	279	280	17.4	14.8	-4.8	-11.7	0.4
Construction	138	137	98	101	12.9	5.3	-0.7	-28.5	2.4
Basic services	153	153	148	148	6.6	7.9	0.1	-3.3	0.1
Electricity and water	24	23	24	24	0.9	1.3	-1.7	1.3	1.3
Transport, storage and communications	129	130	124	124	5.7	6.6	0.4	-4.2	0.2
Other services	1 025	1 033	1 006	1 031	47.6	54.6	0.8	-2.6	2.5
Commerce and finance	412	390	379	405	25.1	21.5	-5.2	-2.9	6.8
Real estate and business services	210	216	215	223	9.4	11.8	2.7	-0.3	3.3
Public administration and defence	344	364	367	373	8.9	19.7	5.7	0.8	1.6
Miscellaneous services	59	63	45	30	4.2	1.6	7.5	-28.9	-30.5

Source: Jamaica, Department of Statistics, *National Income and Product*, 1981.

^a Preliminary figures.

^b Includes miscellaneous services and household and private non-profit institutions, less imputed service charges.

improvement in dairy, beef and small livestock, the development of an efficient irrigation programme in conjunction with the Ministry of Local Government, the institution of the freehold system of land ownership, the rationalization of the agricultural credit scheme, and the organization of a comprehensive rural development programme.

(ii) *Mining.* It is difficult to exaggerate the importance of bauxite and alumina in the economy. These activities account for three-quarters of Jamaica's merchandise exports, one-third of government revenues, and one-seventh of GDP. Moreover, Jamaica ranks fourth in the world in terms of bauxite reserves, which are equivalent to well over 100 years of production at current extraction rates.

In 1981 the mining GDP grew 1.3%. Though the production and export of bauxite declined by 3% and 13% respectively, the industry as a whole remained buoyant thanks to the increase in the volume (4%) and value (10%) of alumina exports (see table 5). Consequently the value of exports for the industry as a whole rose 5% (see table 12 below). Total revenue from the production levy and royalties is estimated to have declined by 0.5%, with royalties falling by 8.8% and the production levy by 0.3%.

The contraction in bauxite production may be largely attributed to the reduced demand for bauxite and alumina in international markets and to a prolonged industrial dispute between bauxite and alumina companies and hourly-paid employees. These two situations combined to produce a significant build-up of bauxite inventories.

The reduction in bauxite prices and profits, plus increased inventories, stimulated the Government to arrange the sale of 1.6 million tons of bauxite to the US Government. Moreover,

Table 4
JAMAICA: INDICATORS OF AGRICULTURAL PRODUCTION
(1970 = 100)

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^b
Index of agriculture, forestry and fishing production	124.7	111.1	107.8	112.3	9.3	-9.7	-7.4	4.2
Agriculture	138.6	122.7	123.2	128.4	18.1	-11.4	0.4	4.2
Export	84.3	75.0	62.1	65.1	13.2	-11.1	-17.2	4.8
Domestic	181.6	160.6	171.6	177.8	20.1	-11.6	6.8	3.6
Livestock	104.7	93.9	87.9	90.8	-4.5	-10.4	-6.3	3.3
Forestry	45.7	28.6	25.7	...	-42.9	-37.5	-10.0	...
Fishing	115.3	109.0	90.3	...	-	-5.4	-17.2	...
Production of some important export crops ^c								
Sugar cane (milled)	3 641	2 965	2 835	2 502	12.0	-18.6	-4.4	-11.8
Bananas ^c	75	69	33	19	-6.3	-8.0	52.2	-42.4
Citrus ^d	69	50	66	54	10.0	-27.5	32.0	-18.2
Pimento ^e	2 585	1 255	943	3 140	27.8	-51.5	-24.9	233.0
Copra	1 927	1 835	1 577	805	-37.6	-4.8	-14.1	-49.0
Cocoa ^f	4 493	3 416	4 379	5 344	-0.2	-24.0	28.2	22.0
Coffee ^f	1 504	2 267	1 310	1 505	24.5	50.7	-42.2	14.9

Source: Jamaica, Department of Statistics, *Production Statistics, 1980*; World Bank, *Jamaica: Development Issues and Economic Prospects*, January 1982.

^aPreliminary figures.

^bExports only.

^cThousands of metric tons.

^dOranges and grapefruits only.

^eMetric tons.

Table 5
JAMAICA: MINING PRODUCTION

	Thousands of metric tons				Growth rates		
	1978	1979	1980 ^a	1981 ^a	1979	1980 ^a	1981 ^a
Bauxite	11 736	11 505	12 053	11 673	-2.0	4.8	-3.2
Alumina	2 116	2 096	2 458	2 556	-0.9	17.3	4.0
Gypsum	135	66	105	180	-51.1	43.9	71.4

Source: Jamaica, Department of Statistics, Production Statistics, 1980 and data supplied to CEPAL.

^aPreliminary figures.

Table 6
JAMAICA: INDICATORS OF MANUFACTURING ACTIVITY

	Thousands of metric tons				Growth rates		
	1978	1979	1980 ^a	1981 ^a	1979	1980 ^a	1981 ^a
Production of selected manufactures^b							
Sugar	292	283	232	205	-2.9	-18.1	-11.3
Flour (wheat)	49	38	49	48	-22.2	29.1	-2.3
Animal feeds	211	203	204	199	-3.5	0.4	-2.7
Rum and alcohol ^c	17	18	21	21	7.1	13.9	2.9
Fertilizers	30	31	29	25	4.4	-7.1	-12.9
Petroleum products ^c	1 173	1 371	1 079	860	16.9	-21.3	-20.4
Textile fabrics ^d	9 330	5 944	4 553	1 899	-36.3	-23.4	-58.3
Cement	294	226	144	165	-23.2	-36.0	14.1
Steel	14	10	9	13	-30.3	-5.1	42.6
Indicators of manufacturing production							
Electricity sales to industry by public utilities ^e	635	588	568	557	-7.3	-3.4	-2.0
Industrial employment ^{f,g}	79	74	77	82	-6.6	3.9	7.2

Source: Jamaica, Department of Statistics, Production Statistics, 1979, and Statistical Digest, February 1982.

^aPreliminary figures.

^bData relate to production of large manufacturing enterprises.

^cMillions of litres.

^dThousands of metres.

^eMillions of kWh.

^fThousands.

^gAnnual data are averages of April and October, except 1980 (average of April and November).

the increase in alumina production greatly helped to offset the negative impact of the cutback in bauxite production.

Within the quarrying subsector, there was a continuation of the upward trend in production which had been evident since 1980. Improvement during 1981 was particularly noteworthy in the case of gypsum production, as a result of renewed activity in the construction sector. The trial quarrying of marble was carried out during the year.

(iii) *Manufacturing*. Manufacturing output increased by less than 1% in 1981: a meagre result, but one which nevertheless reversed the persistent decline of the past six years, including the 12% decrease in 1980. The slight recovery in manufacturing was largely due to the increased output of paints, cement and steel, demand for which grew because of the renewed activity in construction (see table 6). At the same time, however, there was a general decline in production in

the food, beverages and tobacco subsector, together with a contraction of about 20% in the output of petroleum products, due to the curtailment of activity at the refinery as a result of the new processing arrangements under the Venezuela/Mexico Oil Facility. Nevertheless, as a result of the expansion and greater confidence, employment grew 7% in manufacturing as a whole.

Chronic problems affecting output in the manufacturing sector have continued to be the shortage of foreign exchange and tight procedures regarding the acquisition of import licenses. The Government adopted several measures in an effort to revitalize the manufacturing sector, expand capacity utilization to 80% of existing productive capacity in 1981-1984 and provide additional capacity for the production of export items. These measures included (i) allocation of increased foreign exchange to industry; (ii) easing of procedures for obtaining import licenses and foreign exchange; (iii) encouragement of direct foreign investment to supplement local investment through various recently-formed organizations including the Jamaica National Investment Promotions Limited, which was established to generate additional investment throughout all sectors of the economy, with particular emphasis on manufacturing; (iv) upgrading of the skills and technology available to local industries, and (v) formulation of a new package of measures to stimulate the production of export goods. Through the Export Development Fund (EDF), US\$ 46.8 million was provided in 1981 to exporters who utilized US\$ 40.5 million of this total. Comparative figures for 1980 were US\$ 41.2 million granted to 77 exporters who utilized only US\$ 24.6 million.

(iv) *Construction.* With the exception of 1978, the construction sector had experienced a steady decline in output since 1974. In 1980, in particular, the fall was a calamitous 29%. Finally, in 1981, this decline was reversed, and construction output increased by well over 2%. One indicator of the renewed activity within the sector was the growth in the construction of private sector housing projects financed by developers. Even more evident, however, was the spurt in the construction of commercial establishments and office buildings. The upturn in construction activity was facilitated by the increase in loans and advances made by the commercial banks to the construction sector. Such loans increased by approximately 42%, while new mortgage loans extended by building societies grew by about 20%. As a result of this renewed activity, overall employment in construction grew steadily during the year (some 15%).

In an effort to meet the rising demand of the reactivated construction sector, the production of a number of building materials increased considerably, with cement production growing 14% (see table 7), its first increase since 1975. The additional output was due in part to the re-

Table 7

JAMAICA: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980 ^a	1981 ^a	Growth rates			
					1978	1979	1980 ^a	1981 ^a
Production of selected building materials:								
Cement ^b	294	226	144	165	-11.7	-23.1	-36.3	14.6
Paint ^c	5 513	5 783	3 887	6 042	17.7	4.9	-32.8	55.4
Steel ^b	14	10	10	9	37.9	-30.3	-5.1	42.6
Bagasse board ^d	6	557	-	-	-83.0	894.6	-100.0	-
Employment ^e	33	32	25	29	-0.3	-3.0	-20.4	14.6

Source: Jamaica, National Planning Agency, Economic and Social Survey, 1980 and 1981, and Statistical Digest, February 1982.

^aPreliminary figures.

^bThousands of metric tons.

^cThousands of litres.

^dThousands of m².

^eThousands.

Table 8

JAMAICA: INDICATORS OF TOURIST ACTIVITY

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Total visitors ^{bc}	533	594	543	552	37.9	11.4	-8.5	1.6
Long stay ^{bd}	370	401	385	397	45.3	8.3	-4.0	3.1
Short stay ^{be}	12	26	11	10	14.3	117.5	-58.6	-10.2
Other ^{bf}	151	167	148	146	24.9	10.6	-11.6	-1.5
Hotel room occupancy rate	40	48	44	42	38.4	20.0	-7.9	-6.1
Average length of stay ^g	9	9	10	10	-2.3	3.5	15.9	-1.0
Estimated expenditure ^{hi}	148	194	242	290	41.8	31.1	24.4	20.0
Direct employment ^{jk}	10 296	11 707	9 527	8 403	21.1	13.7	-18.6	11.8

Source: Jamaica, National Planning Agency, Economic and Social Survey, 1980 and 1981, and Bank of Jamaica, Research Department, Statistical Digest, February 1982.

^aPreliminary figures.

^bThousands.

^cExcludes nationals residing abroad.

^dThree or more nights.

^eOne or two nights.

^fIncludes cruise-ship passengers and members of the armed forces.

^gNights.

^hMillions of current dollars.

ⁱMinistry of tourism estimates.

^jUnits.

^kIn hotels, guest houses and cottages.

equipment of the plant, funds for which were obtained from the Inter-American Development Bank. An additional loan of US\$ 60 million will be used to expand the plant's capacity from 200 000 tons to 630 000 tons. There was a substantial increase in the production of gypsum and steel throughout the year as well. Although steel production rose significantly, it was unable to satisfy local demand due to the shortage of local scrap and the late availability of reasonable quantities of imported raw materials, whose importation was delayed by difficulties in obtaining licenses before procedures were liberalized in April 1981. Consequently, the value of imports of construction materials rose 42%, but even so several items needed for the termination of housing projects, including lighting fixtures and fittings, remained in short supply.

Despite the pickup of activity in 1981, construction was still way below its level of 10 years before, since several problems continued to severely hinder growth in the sector, among them the shortage of foreign exchange, the high cost and deficient supply of raw materials, high interest rates, and inadequate financing to the private sector for construction and land development.

(v) *Tourism.* Next to bauxite and alumina, tourism is the most important foreign exchange earner of the economy, accounting for one-sixth of Jamaica's exports of goods and services, directly employing some 1 1/2% of the island's labour force in hotels and tourist lodges alone, and with a much broader impact on the economy at large, once its effect on commerce, transportation, restaurants and services is taken into account.

Because of the boom in hotel construction, especially from 1968 to 1973, and the slowdown in tourist arrivals, hotel room occupancy rates fell below 40% in the mid-1970s. Recovery since then has been very slow, and tourist arrivals in 1981 were but 4% higher than in 1978 (see table 8).

The recession in the United States and Great Britain, as well as the rise in transportation costs as a result of the 1979 oil price hike, have contributed to this marked slowdown in tourism in general and in the Caribbean in particular. The tension and violence associated with the recent election in Jamaica must also have played their role, however, for, while tourism to Jamaica fell almost 9% in 1980, it actually increased elsewhere in the Caribbean (for example, 9% in the Bahamas and 3% in Barbados). Consequently, the pickup in real tourist expenditures and in the number of visitors in 1981 (as compared to a fall elsewhere in the Caribbean) suggests that Jamaica will tend to recover its share of visitors to the Caribbean, as the image of violence and tension, which came to be associated with it, begins to fade.

(c) *Employment and unemployment*

One of the most serious manifestations of the slow but steady decline of the Jamaican economy from 1973 onwards was the high and growing rate of unemployment, characteristic of the period. To be sure, Jamaican statistics tend to overstate the magnitude of the problem as compared to other countries: firstly, because Jamaica includes among its unemployed those who are without work and desirous of work, even if they did not in fact seek work that week, which raises unemployment rates at least 50%; secondly, for reasons peculiar to Jamaican society, the proportion of the population of working age actually in the labour force (especially among women) is considerably higher than elsewhere. Be that as it may, the problem is clearly serious, and undoubtedly worsened in the past few years as the economy declined. In this light, the decline in the rate of unemployment during 1981 (of 1 1/2 percentage points), the growth in employment (over 4%), and very especially the growth of employment in construction, commerce and manufacturing (see table 9), are worthy of note.

Table 9

JAMAICA: EMPLOYMENT AND UNEMPLOYMENT^a

(1969 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Labour force	106.3	107.6	109.5	114.5	118.0	121.5	125.4	127.3	132.3	135.4
Employment	99.0	102.0	104.7	110.5	111.1	111.8	114.8	111.6	116.7	121.9
Agricultural ^b	86.9	86.7	96.8	97.4	104.8	104.8	110.4	99.7	113.2	117.3
Mining ^c	133.3	137.3	149.0	146.0	153.9	144.1	116.7	150.2	156.1	...
Manufacturing	115.1	116.4	117.3	118.8	108.1	110.5	111.5	104.2	108.3	116.1
Construction	92.4	98.6	95.0	105.7	89.9	78.1	78.0	75.6	60.2	69.0
Transport and communications ^d	116.0	121.0	121.0	144.1	143.8	134.9	133.8	133.8	157.1	...
Commerce	124.6	129.3	112.8	119.3	117.8	129.0	136.1	131.2	132.9	148.6
Public administration	123.6	130.7	138.9	180.0	194.5	203.5	198.8	201.2	198.6	192.7
Other	89.4	91.4	90.6	95.2	82.5	80.9	82.9	92.5	91.2	...
Unemployment	140.1	134.0	131.9	133.2	150.2	167.3	175.1	200.9	205.6	199.2
Rate of unemployment	23.2	21.9	21.2	20.5	22.4	24.2	24.5	27.7	27.3	25.9

Source: Jamaica, Department of Statistics, *The Labour Force, 1980* and National Planning Agency, *Jamaica, Economic and Social Survey*; and the World Bank.

^aAnnual data are averages of April and October, except 1980 (average of April and November).

^bIncludes forestry and fishing.

^cIncludes quarrying and refining.

^dIncludes public utilities.

3. The external sector

(a) *Introduction*

Jamaica, like all other oil-importing developing countries, was racked by the energy crisis of the 1970s. Nevertheless, this alone could only account for some deceleration in its previous solid rate of growth (as it did in other countries). The persistent decline in output must rather be attributed to the pursuit of an overly expansive domestic policy, which exacerbated rather than ameliorated the initial balance-of-payments disequilibrium (the deficit on current account exceeded 11% of GDP in 1976) induced by the oil crisis. Subsequent stabilization programmes aimed at dealing with such deficits—which included massive devaluation as well as import controls, but failed to curb public spending—succeeded in reducing the deficits, but at the cost of a severe restriction in the quantum of imports rather than through expansion of exports. Thus, at the end of 1980 the quantum of exports was still 1% below the 1976 level (when the stabilization programme was initiated) and almost 25% below the 1972 level (when the expansive public sector policy was set in motion), while the 1980 volume of imports was 27% less than in 1976 and less than half the 1972 level. Small wonder, then, that with increasingly severe import controls (even greater for non-fuel imports), such serious supply bottlenecks brought on a persistent decline in production in the period 1973-1980.

The inability to reduce current account deficits except at the cost of severely restricting output, coupled with the failure adequately to control public sector expenditures, accelerated inflation on the one hand and induced the flight of capital on the other, all of which complicated the pursuit of a policy aimed at restoring internal and external equilibria, notwithstanding IMF support.

In April 1981 a new stabilization programme was adopted backed by a new three-year Extended Fund agreement with the IMF which provided Jamaica with 500 million SDR units (about US\$ 650 million over the three years), 40% of which would be provided the first year. The terms of the arrangement included both short and long-term measures.

The long-term strategy involves the attraction of direct foreign investment, the establishment of export-oriented production, and the increasing of income derived from tourism. Short-term measures included a more liberal import policy in order to assure productive sectors of a steady and adequate supply of key imported inputs. Import licensing procedures were relaxed and certain items were released from the list of prohibited imports, with the importer given sole responsibility for obtaining the required foreign exchange. It also exempted from licensing requirements those importers who utilized retained funds to import goods not included on the prohibited list or imports financed through the Export Development Fund.

It was also proposed that, by fiscal year 1983/1984, the level of net international reserves of the Bank of Jamaica should be equivalent to at least three months of imports. The official exchange rate was to be maintained at J\$ 1.788=US\$ 1.00, (which implied the need to assure wage moderation and a sharp reduction in the rate of inflation to keep exports competitive).

Moreover, it was agreed that arrears on current international payments and transfers for current international transactions were not to exceed US\$ 170 million for fiscal year 1981/1982. The realization of these measures necessitated additional financial support from donor countries and multilateral financial institutions and refinancing from commercial banks. A group of multilateral agencies and donor countries operating under the aegis of the Caribbean Group for Co-operation in Economic Development, and co-ordinated by the World Bank, pledged balance-of-payments support amounting to approximately US\$ 450 million during 1982/1983. An agreement was reached with a steering committee of commercial banks for the deferment and refinancing of 100% of all principal payments to foreign commercial banks in respect of direct guaranteed debts of the Government of Jamaica maturing during the fiscal years 1981 and 1982. The sums falling due in the two years amounted to US\$ 47 and 41 million, respectively. The commercial banks also agreed to support a syndicated loan of US\$ 70 million to be floated by the Government of Jamaica; this was effected in July and oversubscribed by US\$ 1 million.

(b) *External sector performance in 1981*

Notwithstanding these efforts, the balance-of-payments situation deteriorated sharply in 1981, with the current account deficit nearly doubling. To be sure, thanks to the IMF agreements and the subsequent relatively easy foreign exchange availability, imports of goods and services rose 21% (see table 10), with imports of goods alone increasing by 25%. This eased supply bottlenecks and so permitted the turnaround in economic activity. The sharp upturn in imports also undoubtedly reflected the pent-up demand for imports from the previous years of stringency, and the need to renew production capacity. Thus, the imports of consumer and capital goods, which taken together had been compressed to less than 30% of all imports in 1980 as opposed to close to 50% in 1970-1974, grew by around 50% in 1981 (see table 11).

Not unexpectedly, in view of the generally negative international situation, exports of goods and services grew poorly, increasing by only 3% in nominal terms (see table 10). This was because the decline of over 10% in bauxite and sugar exports almost completely cancelled out the gains in alumina and other exports (see table 12). Exports of services increased more than those of goods, but this was solely due to the much faster rise in the prices of services (12%) compared with goods (less than 1%).

Table 10
JAMAICA: MAIN FOREIGN TRADE INDICATORS
(Annual growth rates)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods FOB							
Value	7.5	-18.8	12.4	12.6	-1.5	17.7	1.2
Volume	-23.7	-10.8	-0.1	13.3	-2.1	-10.6	1.0
Unit value	41.0	-9.0	12.5	-0.6	0.6	31.6	0.2
Exports of services							
Value	4.7	-5.9	-5.8	27.2	19.8	13.4	6.6
Volume	-11.8	-14.8	-14.6	51.1	16.5	-6.6	-5.1
Unit value	18.7	10.5	10.3	-15.8	2.8	21.3	12.3
Exports of goods and services							
Value	6.7	-15.4	7.1	16.4	4.5	16.3	2.9
Volume	-20.4	-12.0	-4.4	23.4	3.9	-9.1	-1.3
Unit value	33.4	-4.9	13.0	-5.0	0.7	28.3	4.4
Imports of goods FOB							
Value	19.5	-18.4	-15.8	12.5	17.6	17.7	24.9
Volume	5.6	-24.5	-22.0	3.9	6.4	-9.1	18.6
Unit value	13.2	8.1	7.9	8.3	10.5	29.4	5.4
Imports of services							
Value	26.1	-0.8	-21.6	16.6	12.7	8.8	9.8
Volume	16.3	-5.6	-33.4	18.2	2.2	-0.1	2.0
Unit value	8.4	5.1	17.6	-1.4	10.2	8.9	7.7
Imports of goods and services							
Value	21.1	-13.8	-17.5	13.6	16.2	15.2	20.9
Volume	8.8	-18.4	-26.2	8.7	4.9	-5.9	12.3
Unit value	11.6	5.3	9.4	6.6	10.6	23.0	8.0
Terms of trade (goods)	25.4	-15.6	4.1	-7.6	-9.5	4.4	-4.5
Terms of trade (goods and services)	19.4	-9.7	3.3	-10.9	-8.9	4.3	-3.4
Purchasing power of exports of goods and services	-5.0	-20.6	-1.2	10.0	-5.3	-5.2	-4.6

Source: CEPAL, on the basis of official data

^aPreliminary figures.

Table 11
JAMAICA: IMPORTS OF GOODS, CIF

	Millions of US dollars		Percentage Breakdown		Growth rates
	1980	1981 ^a	1980	1981 ^a	1981 ^a
Total	1 171	1 485	100.0	100.0	26.8
Consumer goods	132	193	11.2	13.1	46.5
Food	73	105	6.2	7.1	44.1
Other	59	89	5.0	6.0	49.5
Raw materials	842	995	71.9	67.0	18.2
Petroleum	447	499	38.2	33.6	11.6
Other	395	496	33.7	33.4	25.6
Capital goods	198	297	16.9	19.9	50.2
Construction materials	47	67	4.0	4.5	41.6
Transport equipment	35	64	3.0	4.3	83.0
Other machinery and equipment	105	152	9.0	10.2	44.6
Other	10	14	0.9	0.9	35.6

Source: Bank of Jamaica, Report and Statement of Accounts, 1981.

^aPreliminary figures.

Table 12
JAMAICA: SELECTED EXPORTS OF GOODS

	Millions of US dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981	1971	1981	1979	1980	1981
Total	792	815	941	970	100.0	100.0	2.9	15.5	3.1
Main traditional exports	642	639	790	807	73.8	83.2	-0.5	23.6	2.2
Alumina	348	368	537	588	36.9	60.6	5.8	45.9	9.5
Bauxite	234	214	198	172	26.4	17.7	-8.5	-7.5	-13.1
Sugar	60	57	55	47	10.5	4.9	-5.0	-3.5	-14.5
Other exports	150	176	151	163	26.2	16.8	17.3	-14.2	8.0

Source: Bank of Jamaica, Report and Statement of Accounts, December 1981; World Bank, Jamaica: Development Issues and Economic Prospects, February 1982.

As a result of this very disparate movement in exports and imports, the trade deficit for 1981 was just over US\$ 280 million, a tenfold increase over 1980. Though inflation in Jamaica decelerated sharply in the course of the year, it nevertheless exceeded the increase in the price of its imports, with the result that as the exchange rate remained fixed, the competitiveness of Jamaica's domestic production with respect to its imports deteriorated 4% in 1981 (see table 13). To be sure, there is no certainty that the exchange rate prevailing in 1978-1980 was the correct one. Yet in view of Jamaica's balance-of-payments disequilibria in recent years, and furthermore given the liberalization of imports in 1981, it would have seemed reasonable for the exchange rate to suffer a devaluation and not a revaluation, as actually occurred in order to improve Jamaica's competitiveness. This is all the more so considering the evidence¹ indicating that Jamaica's

¹Mahmood Ayub, *Made in Jamaica*, World Bank Occasional Paper, 1981.

Table 13

**JAMAICA: EVOLUTION OF EFFECTIVE NOMINAL AND REAL EXCHANGE
RATES FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual and quarterly averages	Index of effective nominal exchange rate for:		Index of effective real exchange rate for:	
	Exports ^b	Imports ^b	Exports ^c	Imports ^c
1970	46.4	45.7	90.1	92.0
1971	46.0	45.2	89.4	90.1
1972	45.6	45.2	89.3	89.9
1973	52.1	51.6	94.5	95.2
1974	51.6	51.0	89.0	89.6
1975	50.9	50.5	84.4	84.8
1976	48.3	49.3	79.1	80.7
1977	57.6	59.5	92.3	94.6
1978	79.4	81.8	101.4	104.0
1979	96.6	98.2	106.9	107.6
1980	100.0	100.0	100.0	100.0
1981	94.8	97.8	92.9	96.0
I	98.9	99.8	96.1	97.2
II	95.5	98.1	94.8	97.5
III	92.1	96.1	90.0	94.8
IV	93.1	96.9	90.8	94.7

Source: Statistical Appendix.

^aFor a detailed explanation of the methodology used, see the introduction to the Statistical Appendix.

^bThese indexes are the result of multiplying the weightings of exports or imports (table 2) by the indexes of the nominal exchange rate. The products are then added together to give the indexes of the effective nominal exchange rate.

^cA similar procedure to that described in note b is employed using tables 1 and 2.

manufactured goods in this period cost 34% more than world prices. Consequently, it is to be doubted whether the trade balance can be significantly improved in the short run unless the currency is devalued or Jamaica's inflation falls well below that of its major trading partners.

In the short run, heavy capital flows will be needed to cover the trade and current account deficits. The agreements with the IMF, private banks and donor countries were aimed at doing just that.

Capital flows in 1981 were virtually the same as in 1980, once the IMF credit of US\$ 160 million is included; thanks to this, debt repayments were increased from US\$ 94 million in 1980 to almost US\$ 260 million in 1981 (see table 14). Overall, 1981 concluded with a balance-of-payments deficit of close to US\$ 220 million, financed either by the IMF credit or by a drawing down of reserves. As a result, the overall level of foreign debt rose substantially in the course of the year, reaching nearly US\$ 1 800 million (see table 15). The composition of the debt shifted significantly: the proportion due to commercial banks and other commercial sources declined, whereas that due to international institutions and bilateral sources rose considerably. Nevertheless, despite the decline in the proportion of debt due to commercial sources, there was a significant shortening of the debt maturity, inasmuch as a substantial proportion of long-term debts contracted in earlier years began to bunch up.

4. Monetary and fiscal policy

Monetary and fiscal developments during 1981 were strongly influenced by the three-year Extended Fund Facility arrangement between the IMF and the Government of Jamaica. As noted before, the new arrangement stipulates that close to 500 million SDR units are to be made available

Table 14

JAMAICA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981
Exports of goods and services	499.3	1 050.7	878.6	949.5	1 113.0	1 165.1	1 358.9	1 400.3
Goods FOB	341.4	808.6	656.3	737.8	831.1	818.2	962.7	974.0
Services ^a	157.9	242.1	222.2	211.8	282.0	346.9	396.2	426.3
Transport and insurance	27.6	74.4	76.8	74.4	100.2	114.1	113.8	97.6
Travel	95.5	128.5	105.8	105.5	146.9	195.4	240.7	284.4
Imports of goods and services	590.0	1 284.9	1 103.5	891.1	1 032.3	1 197.6	1 386.0	1 682.0
Goods FOB	449.0	969.6	791.7	666.7	750.1	882.4	1 038.2	1 296.7
Services ^a	141.0	315.3	312.0	224.3	282.2	315.0	347.8	385.2
Transport and insurance	87.8	193.4	170.9	147.5	182.2	202.8	216.7	246.4
Travel	15.5	52.2	58.9	11.9	10.4	10.9	11.7	13.8
Merchandise balance	-107.6	-161.0	-135.3	71.1	81.0	-64.2	-75.5	-322.7
Trade balance	-90.7	-234.2	-224.9	58.5	80.8	-32.4	-27.1	-281.7
Factor services	-84.7	-76.2	-83.6	-120.7	-156.6	-186.6	-229.6	-179.5
Profits	-103.9	-59.1	-46.6	-29.0	-92.1	-81.7	-111.9	-2.9
Interest received	15.2	21.6	11.5	9.7	8.9	7.9	11.5	14.7
Interest paid	-9.5	-65.2	-77.1	-109.4	-95.7	-129.1	-151.1	-213.3
Others	13.5	26.5	28.5	7.9	22.3	16.3	22.0	22.1
Unrequited private transfer payments	26.9	22.7	2.0	15.1	15.1	70.0	81.7	123.3
Balance on current account	-148.5	-287.8	-306.5	-47.1	-60.6	-149.0	-175.1	-337.8
Unrequited official transfer payments	-4.4	5.0	3.9	5.0	10.6	10.1	9.0	0.9
Long-term capital	160.7	227.9	101.8	4.4	4.4	-0.9	235.2	58.0
Direct investment	161.4	-1.8	-0.6	-9.7	-26.5	-26.4	27.7	-11.6
Portfolio investment	-6.4	-4.1	3.8	0.0	0.0	0.0	0.0	0.0
Other long-term capital	5.7	233.8	98.6	14.1	30.9	25.5	207.5	69.6
Official sector ^b	2.0	153.7	87.6	8.9	208.1	79.3	221.0	75.2
Loans received	9.4	159.4	118.7	60.7	302.7	185.3	337.7	333.5
Amortization payments	-3.1	-4.0	-29.3	-50.7	-92.3	-110.9	-93.8	-258.4
Commercial banks ^b	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans received	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors ^b	3.7	80.1	11.0	5.3	-177.2	-53.9	-13.5	-5.7
Loans received	0.0	115.1	56.8	35.6	0.0	0.0	80.4	72.6
Amortization payments	0.0	-20.9	-29.3	-39.9	-177.2	-53.9	-80.4	-78.3
Basic balance	7.8	-54.9	-200.8	-37.6	-45.6	-139.8	69.1	-278.9
Short-term capital	-0.4	94.8	-25.1	-44.6	26.2	9.3	52.3	-70.4
Official sector	2.4	25.6	14.1	24.9	36.4	-0.3	85.6	-57.5
Commercial banks	0.0	2.3	4.8	-0.1	4.8	2.7	-11.6	5.5
Other sectors	-2.8	66.9	-44.0	-69.4	-15.0	6.8	-21.7	-18.4
Errors and omissions (net)	7.3	-83.0	41.7	67.9	-33.8	-34.6	-82.4	131.5
Balance on capital account	163.3	244.5	122.5	32.8	7.4	-16.4	214.2	120.2
Global balance ^c	14.8	-43.2	-184.0	-14.2	-53.2	-165.4	39.2	-217.7
Total variation in reserves ^c	-24.9	39.0	188.6	14.6	62.4	165.9	-80.8	188.3
(- sign indicates an increase)								
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special Drawing Rights	-6.4	1.2	4.1	-16.4	11.5	5.3	0.5	-1.3
IMF reserve position	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	-2.8
Foreign exchange assets	-14.6	63.6	89.1	1.1	-22.7	-10.3	-41.6	23.8
Other assets	-3.7	-25.0	30.9	2.9	0.0	0.0	2.5	8.1
Use made of IMF credit	0.0	-0.7	64.5	27.0	73.6	170.9	-42.2	160.4

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook* (magnetic tape, March 1982); 1981: CEPAL, on the basis of official data.

^aServices also include other official and private transactions, but not factor services.

^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^cThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

to Jamaica over a three-year period, 40% of which is expected to be provided during the fiscal year 1981/1982. In order to receive this foreign exchange, Jamaica committed itself to concrete limits on net banking system credit to the public sector, to ceilings on the net domestic assets of the Bank of Jamaica, as well as to restraint on new foreign borrowing by the public sector or by the private sector with public sector guarantees.

(a) *Fiscal policy*

The fiscal measures outlined in the Extended Fund Facility arrangement were designed to speed the attainment of surpluses on the fiscal sectors current account (to make up for the reduced inflow of foreign exchange after the big contribution in the first year of the arrangement) and to lessen strain on the domestic banking system in order that the maximum volume of domestic financial resources be made available to the productive sector.

The proposed fiscal objectives over the three-year period included the reduction of overall central government expenditure to no more than 30% of the gross domestic product by the end of the three-year programme period, with the level of government expenditure expected to be held at 33% of GDP during the fiscal year 1981/1982; the lowering of the current account deficit to 3.5% in 1981/1982 and its eventual conversion into a surplus of 1% of GDP by the 1983/1984 financial year; and a tightening of the overall deficit (net amortization) to 10% of GDP.

In large measure, fiscal sector performance succeeded in adhering to the spirit, if not the letter, of its specific objectives. Current revenues were increased by over 40% (see table 16), largely thanks to the steps taken to reorganize tax administration and to apply strict tax

Table 15

JAMAICA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1970	1972	1975	1976	1977	1978	1979	1980	1981 ^a
Debt ^b (millions of US dollars)	129	210	706	965	1 052	1 236	1 495	1 607	1 800
Gross reserves (millions of US dollars)	139	160	126	32	48	59	63	105	85
Debt index (1970 = 100)									
Current prices	100	163	547	748	816	958	1 159	1 246	1 395
Constant prices	100	155	409	543	556	609	667	585	621
Debt service as a percentage of: ^c									
Exports ^d	0.5 ^e	1.4	7.3	13.3	22.2	25.1	24.2	21.7	39.3
Gross domestic product ^f	0.4 ^e	0.1	1.5	2.2	3.7	3.4	5.0	5.2	6.2
Debt uses									
Interest	56.5	23.0	24.0	20.7	43.1	24.0	23.6	68.6	38.7
Amortization	43.5	30.9	14.6	21.7	56.9	41.4	28.3	32.4	61.3
Investment	-	25.8	61.4	-	-	34.4	34.1	-	-
Consumption	-	20.3	-	57.6	-	0.2	14.0	-	-
Average rate of interest	...	8.3	9.5	7.7	6.4	6.8	7.7	...	...
Average maturity ^g (years)	...	9.4	11.5	14.3	15.2	17.6	17.7	12.2	9.2

Source: CEPAL, on the basis of data provided by the World Bank, IMF and the Bank of Jamaica.

^aPreliminary figures.

^bDisbursed public and State-guaranteed private debt and use made of IMF credit.

^cOn the basis of balance of payments data.

^dAmortization and interest payments as a proportion of exports of goods and services.

^eReceipts.

^fInterest payments as a proportion of the gross domestic product.

^gOn commitments of each year.

Table 16

JAMAICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1980 ^a	1981 ^a	Growth rates 1981
Current revenue	1 050	1 482	41
Current expenditure	1 547	1 664	8
Current surplus (+) or deficit (-)	-497	-182	-63
Capital revenue	1	6	500
Capital expenditure	572	816	43
Total revenues	1 051	1 488	42
Total expenditures	2 119	2 480	17
Overall surplus (+) or deficit (-)	-1 068	-992	-7
Financing			
Foreign	360	644	79
Domestic	708	348	-51

Source: Bank of Jamaica, Report and Statement of Accounts, December 1981.

compliance and collection procedures. This increase is all the more impressive in real terms, for inflation was only 13% (mid-year to mid-year). On the expenditure side, current expenditure for the fiscal year was virtually on target, increasing 8% in nominal terms and consequently declining in real terms. This was due largely to wage restraint within the public sector, as well as to careful management of discretionary payments. As a result, the fiscal deficit on current account was reduced by well over half, falling to 3.5% of GDP (down from over 10% in 1980). Gross capital expenditure, including amortization payments, rose 43% in 1981, whereas capital revenues were virtually nil. Consequently, the overall fiscal deficit, though down 7% with respect to 1980, was still close to J\$ 1 billion.

The major highlight in the area of financing the budget was naturally enough the sharp increase in foreign borrowing to cover the deficit. The share of the deficit financed by foreign borrowing almost doubled in the course of 1981, rising from 34% in 1980 to 65%. As a result, the domestic banking system's resources were freed from the need to give support to the public sector, and could hence provide credit for the private sector.

(b) *Monetary policy*

In line with the reduction of the public sector deficit, monetary policy was relatively contractive, focussing on the lowering of inflation, the mobilization of savings, and the channelling of the available domestic credit to priority sectors.

The M_1 money supply, i.e., currency plus demand deposits, increased but 6% in 1981 as compared to the 20% increase in 1980 (see table 17). This increase was so small, notwithstanding the large increase in domestic credit, because of the contractive influence of the marked decline in net foreign assets of the banking system on the domestic money supply, as well as because of the shifting of funds from demand deposits (M_1) into time deposits (quasi-money). This substantial decline in net foreign assets in 1981 is, of course, the counterpart of the large influx of funds acquired under the new IMF agreement for debt servicing and the aforementioned deterioration in the balance of trade. The large shift from demand to time deposits was due to the payment of higher interest rates on the latter (these rose 3 percentage points in 1981) and to the exemption of interest payments from income taxes.

Indicative of the ample growth in domestic credit and of the efforts to reactivate key sectors of the economy was the large increase (37%) in loans and advances outstanding (see table 18), with notable increases in loans to agriculture (especially for the rehabilitation programme for sugar and bananas) and manufacturing.

The slower growth of the money supply (both M_1 and M_2 decelerated), plus the increased availability of goods, contributed to the sharp decline in the rate of inflation. Thus, the average growth rate of prices fell from 27% in 1980 to under 13% in 1981 (see table 19).

The decline appears all the sharper (inflation of under 5%) when the 12-month period December 1980 to December 1981 is compared with the previous period (see figure 2) or if the focus is on food products alone. This sharp deceleration is all the more impressive given the fact that in May 1981 price controls were lifted on over 40% of the items previously controlled, while other goods were removed to categories involving a lesser degree of control. To be sure, the ongoing recession, the high level of under-utilized capacity, and the fixed exchange rate tended to put a lid on any sharp rise in prices.

Table 17
JAMAICA: MONETARY BALANCE

	Balance at end of: (millions of Jamaica dollars)			Growth rates		
	1979	1980	1981	1979	1980	1981
1. Money	541	647	687	7.6	19.6	6.2
Currency outside banks	219	257	281	27.2	17.4	9.3
Demand deposits	322	390	406	3.3	21.1	4.1
2. Factors of expansion	959	1 564	2 072	13.1	63.1	32.5
Foreign assets (net)	-761	-852	-1 382			
Domestic credit	1 720	2 416	3 454	21.0	40.5	43.0
Government (including official entities)	1 065	1 636	2 383	23.5	53.6	45.7
Private sector	702	872	1 196	17.3	24.2	37.2
Other financial institutions	-47	-92	-125			
3. Factor of absorption	418	917	1 385	19.2	119.4	51.0
Quasi-money (savings and time deposits)	742	906	1 231	19.3	22.1	35.9
Other items (net)	-324	11	154			

Source: Bank of Jamaica, Report and Statement of Accounts, December 1981.

Table 18
JAMAICA: DESTINATION OF CREDIT TO THE PRIVATE
SECTOR, BY KIND OF ACTIVITY
(Millions of Jamaica dollars)

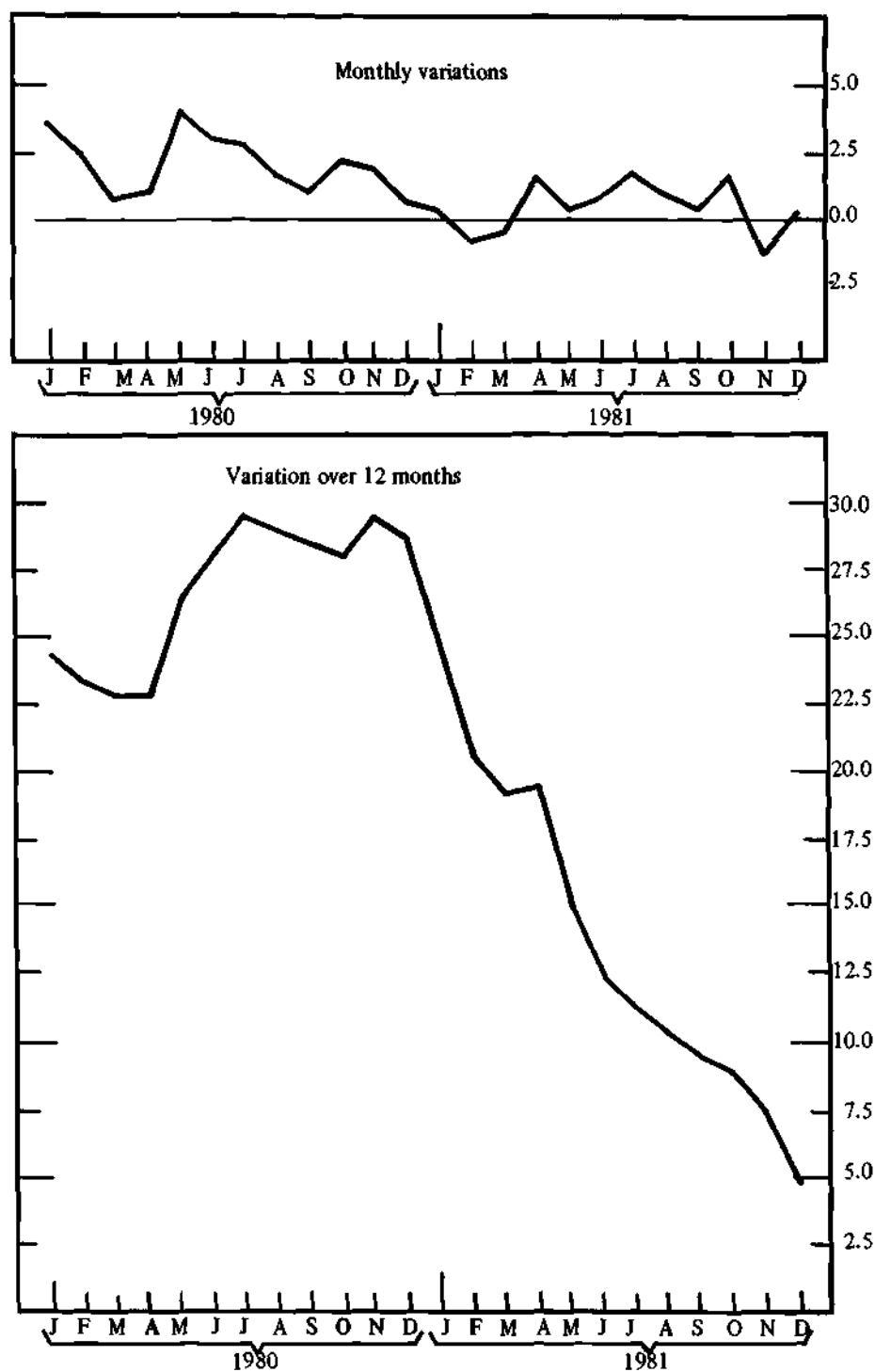
	At end of:				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Commercial bank loans and advances outstanding, of which:	768	901	1 088	1 495	17.4	20.8	37.4
Agriculture	82	93	118	193	13.7	26.5	63.8
Manufacturing	133	164	213	317	23.6	29.7	49.0
Construction and land development	128	126	127	181	-1.4	1.8	42.4
Central and local government	28	29	24	24	2.5	-17.5	2.6
Personal	119	167	188	193	40.4	12.2	2.4
Distribution	81	80	90	122	-0.4	11.4	36.3

Source: Bank of Jamaica, Research Department, Statistical Digest, February 1982.

^aPreliminary figures.

Figure 2

JAMAICA: SHORT-TERM EVOLUTION OF CONSUMER PRICES



Source: International Monetary Fund, *International Financial Statistics*.

Table 19

JAMAICA: EVOLUTION OF INTERNAL PRICES

	1975	1976	1977	1978	1979	1980	1981
Variation between annual averages							
Total	17.5	9.7	11.2	34.9	29.1	27.3	12.6
Food and beverages	17.8	8.9	9.4	36.8	33.4	33.4	10.3
Variation December - December							
Total	20.6	15.7	14.1	49.4	19.8	28.6	4.7
Food and beverages	19.8	15.5	12.3	54.1	24.5	33.7	1.3

Source: Jamaica, Department of Statistics, Consumer Price Indexes, Annual Review, 1980, and Jamaica Economic and Social Survey, 1981.

MEXICO

1. Recent economic trends: Introduction and summary

In 1981 the Mexican economy registered a high rate of growth (a little over 8%) for the fourth consecutive year. This meant that the per capita product increased 23% over this period and there was a continued reduction in unemployment and underemployment, which have traditionally constituted one of the country's most serious problems. This performance is even more heartening if consideration is given to the conditions experienced by nearly all the industrialized economies, which perceptibly affected the growth rate of most of the Latin American countries.

In the above results an important role was played by the Government's economic policy. In recent years this has been designed to expand and diversify the production apparatus and to create employment at a faster rate than the growth of the active population. Because of the internal and external conditions prevailing, however, this policy also generated some increasing disequilibria which will be commented on later.

The policy measures or instruments used to achieve these objectives included in particular an increase in public expenditure, particularly on investment; the promotion of domestic and foreign private investment, mainly through an expansive monetary and credit policy directed at stimulating saving and also through the selective use of incentives and subsidies; and the accelerated growth of exports of both the petroleum sector and the rest of the traditional and non-traditional activities.

On evaluating developments in 1981, it may be concluded that the expected results were obtained as regards converting public expenditure, in particular public capital formation, into one of the basic levers for increasing production and employment. At the same time, considerable increments were achieved in private investment, although not always in activities with high social returns. The results with respect to the promotion of exports followed opposite trends, since although they increased considerably in value—a not insignificant achievement in view of the recession in the world economy and the difficulties affecting the petroleum market which, in the middle of the year, led to a substantial drop in Mexican sales—the increase was below the target which the Government had set at the beginning of the year. Furthermore, non-petroleum exports continued to contract in real terms for the second year running. Thus, hydrocarbons accounted for 73% of the total value of external sales of goods, compared with only 16% in 1976, when the exceptional growth of petroleum exports was just beginning.

The bases for growth in 1981 were not unlike those which, with similar results, prevailed in the preceding year: accelerated growth of fixed capital formation, which came to represent the unprecedented proportion of 25% of the gross domestic product; rapid growth of current government expenditure, despite the lower rate in the second half of the year; and lastly, the continued dynamism—although at a decreasing rate in relation to previous years—of hydrocarbon exports.

Moreover, the expansion for the third year in succession of the purchasing power of external sales at a much higher rate than that of their volume—a result in its turn of the rise in average unit values of exports owing to the large-scale incorporation of petroleum—gave Mexico a large gain deriving from the terms-of-trade effect which was reflected in more rapid growth of gross income than of the domestic product. Thus, gross income increased at an average annual rate of 9.5% in the period 1978-1981 (see table 1 and figure 1). In the last of these years, the increase of nearly 6% in per capita income gave vigorous impetus to household consumption, which rose by around 8.5%.

This evolution of domestic expenditure acted as a spur to the accelerated growth of nearly all the production sectors and was in turn supported by it. Among these sectors an outstanding feature was once again the expansion of petroleum activities and the encouraging results achieved for the second consecutive year in the crop farming and fishing sectors. Also outstanding was the growth of electric power generation and, to a somewhat lesser extent, that of manufacturing output. Within the latter, the boom in the motor-vehicle, capital goods and petrochemical industries continued, that in petrochemicals being the result of the heavy investment made by Petróleos Mexicanos (PEMEX). Lastly, trade and transport and the provision of public services also expanded considerably in the course of the year.

The Government's development policy made simultaneous progress on several fronts in 1981. Among the projects and activities being promoted which were of particular importance that year may be mentioned: the vigorous agricultural development policy through the Mexican Food

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (billions of 1970 dollars)	68.7	71.6	74.1	80.1	87.5	94.7	102.4
Population (millions of inhabitants)	60.1	62.0	63.9	65.8	67.7	69.8	71.8
Per capita gross domestic product (1970 dollars)	1 143	1 155	1 160	1 218	1 291	1 358	1 426
Growth rates							
B. Short-run economic indicators							
Gross domestic product	5.6	4.2	3.4	8.1	9.2	8.3	8.1
Per capita gross domestic product	2.5	1.1	0.4	5.0	6.0	5.2	5.0
Real gross domestic income ^b	5.6	4.2	3.2	8.3	10.1	10.2	8.9
Terms of trade (goods and services)	0.2	-1.9	-4.2	2.4	11.4	20.9	8.0
Current value of exports of goods and services	0.4	13.4	13.6	37.0	39.0	54.6	21.5
Current value of imports of goods and services	10.8	-2.7	-6.8	46.9	47.8	51.4	28.8
Consumer prices							
December - December	11.3	27.2	20.7	16.2	20.0	29.8	28.7
Variation between annual averages	15.0	15.8	29.1	17.5	18.2	26.3	27.9
Money	21.3	31.4	26.4	32.7	33.1	33.5	32.7
Wages and salaries ^c	16.0	29.3	27.9	13.5	16.8	17.8	30.9
Rate of urban unemployment ^d	...	7.0	8.0	6.9	5.7	4.9	4.8 ^e
Current income of government ^d	42.1	31.4	42.6	33.3	36.4	65.2	38.0
Total expenditure of government	40.6	33.2	28.6	40.5	54.0	44.7	98.1
Fiscal deficit/total expenditure of government ^d	34.3	35.2	28.2	36.6	43.8	35.9	55.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-2 365	-1 347	188	-516	-1 729	-2 116	-4 422
Balance on current account	-4 069	-3 435	-1 870	-3 259	-5 570	-7 720	-12 997
Variation in net international reserves	112	-681	384	455	399	1 037	1 113
External debt ^f	...	25 813	29 111	33 253	38 992	48 656	67 712

Source: ECLA, on the basis of official figures.

^a Preliminary figures.

^b Gross domestic product plus terms-of-trade effect.

^c Annual average variation of nominal minimum wages.

^d Percentage.

^e Estimates.

^f Total external debt.

System (Sistema Alimentario Mexicano-SAM), which managed to bring over 2 million more hectares into the cultivation of grains, half of which had been idle land; the accelerated expansion of the domestic capacity for processing hydrocarbons, through the development of the petrochemicals industry; the provision of support for the production of capital goods and the execution of several projects in this field; the construction of important industrial ports and the expansion of the social infrastructure, particularly in those sectors relating to education,¹ mechanisms for the distribution of basic commodities, and attention to marginal areas or indigent population groups. The aim of this set of measures, once they achieve full maturity, is to expand the bases of support for the country's economic development, achieve more socially equitable development, and progress towards a domestic economy less dependent on external supplies and the international situation.

Nevertheless, the evolution of the economy was not entirely free from difficulties in 1981, and these tended to get worse as the year went on. As stated earlier, the achievement of the priority goals of growth, diversification and employment through the above-mentioned strategy brought into focus and even accentuated certain disequilibria which had carried over from previous years, notable among them the increasing negative balance on the external accounts, the heavy external indebtedness and its servicing, the disequilibria in the government accounts and inflationary pressures.

The factor which possibly did most to accentuate these disequilibria in 1981 was the deterioration in the world market for hydrocarbons, which began to be evident in the second quarter and was reflected in a drop in the prices of this product and a sharp decrease in the volume exported during a brief period in the middle of the year. These situations contributed to an increase in the deficit on the balance of payments trade account, and worsened the already considerable financial disequilibrium of the public sector. They also led the authorities to introduce some changes in the economic policy, including a 4% reduction in the budgeted expenditure of the central government in the second half of the year and more restrictions on imports of non-essential products, through the system of prior permits. These adjustments may not, however, have fully reflected the magnitude of the disruptions caused by the adverse trends originating in the external sector.

Furthermore, the rapid growth of domestic demand, especially that of the public sector, combined with a distinctly expansionary credit policy, intensified inflationary pressures, which were reflected first in a 28% rise in the consumer price index for the year, and secondly in an exceptional growth of imports.

Since the rate of domestic inflation far exceeded that of the principal countries with which Mexico maintains close trade relations, the monetary authorities continued to implement a system of regulated floating of the exchange rate, but the gradual adjustments registered in the value of the peso with respect to the dollar during the year—which altogether amounted to 11%—were insufficient to place it at a level adequately reflecting the external purchasing power of the peso.²

It is difficult to assess the effect of the gradual overvaluation of the peso in the last few years on the final result of the 1981 balance of payments, although there is little doubt that this encouraged imports of both goods and services and contributed to the stagnation of non-petroleum exports.

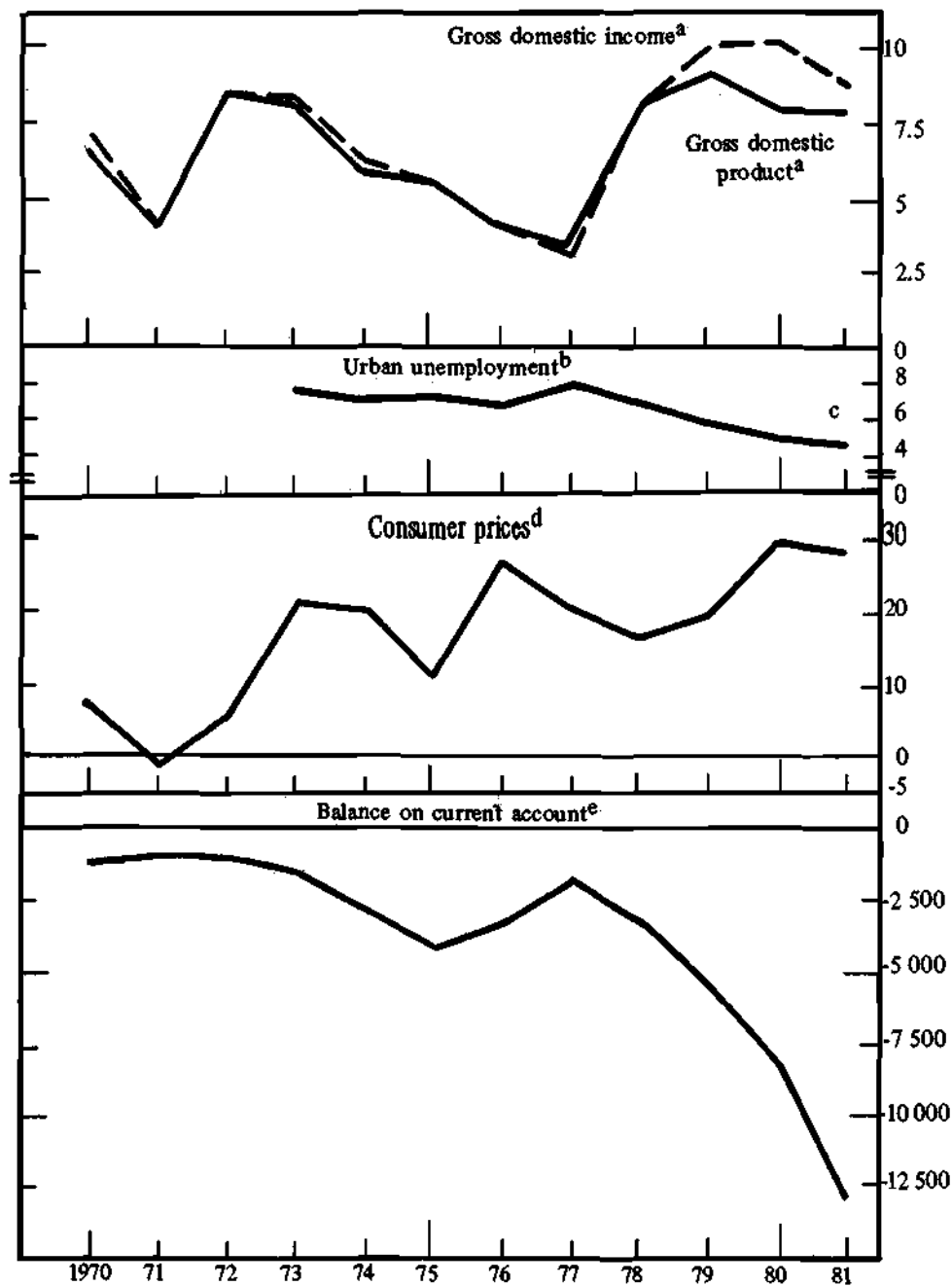
At all events, as a result of the aforementioned difficulties affecting the world hydrocarbon market, the sluggishness of non-petroleum exports and tourism, the persistent increase in imports, and above all the unusually sharp rise in interest rates in the international capital markets,³ in 1981 an unprecedented balance-of-payments current account deficit of nearly US\$ 13

¹Thanks to the priority assigned to education in the social policy, 72.5% of the school-age population was covered in 1981 compared with 60% in the period 1976-1977.

²As the year advanced, the exchange rate adjustments were progressively stepped up. Thus, in the first quarter of 1981 the annual rate of depreciation of the peso in terms of the dollar was 8.4% but in the three following quarters it rose to 10.7%, 12.4% and 16.2%, respectively (see Banco de México, *Informe Anual 1981*, p. 43).

³Owing to Mexico's large external debt, this factor pushed up interest payments in 1981 to approximately US\$ 8.2 billion, equal to 64% of the current account deficit.

Figure 1
MEXICO: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAnnual average rate in metropolitan areas of Mexico City, Guadalajara and Monterrey.

^cEstimate.

^dPercentage variation from December to December.

^eMillions of dollars.

billion was recorded: a figure equivalent to 6% of the gross domestic product and 45% of the value of exports of goods and services.

To cover this deficit and also the considerable outflow of capital stimulated among other factors by the progressive overvaluation of the peso, recourse was had to net external financing of nearly US\$ 14.1 billion. This was obtained to a large extent by the public sector and included a much higher proportion of short-term credit than in recent years. The significant increase in external financing was facilitated by the country's financial standing, based partly on the magnitude of its proven hydrocarbon reserves. As a result, however, the public debt increased considerably—amounting at the end of the year to nearly US\$ 68 billion, or almost 28% of the gross domestic product—and its structure deteriorated. At the same time, the incidence of the corresponding amortization and interest payments increased sharply, absorbing 54% of the value of exports of goods and services.

As already noted, among the phenomena discussed here an important role was played by the public sector's financial deficit, which was basically the result of the policy of heavy spending and support for the directly productive sectors, but was accentuated by the decrease in income deriving from the exports of hydrocarbons programmed by PEMEX. Thus, the central government deficit alone rose from a little over 7% of the gross domestic product in 1980 to 12% in 1981. To cover this deficit, recourse was had to both external and internal financing which, together with the expansive credit policy in favour of the private sector, constituted the main causes of the monetary expansion.

It is true that there were also substantial increases in the deposits obtained by the intermediation system, which were stimulated by the growing sophistication of the Mexican financial market and by the policy followed in connection with passive interest rates, which for the first time in several years offered real positive returns to savers. There was, however, an increasing tendency to prefer deposits in foreign currency, which was undoubtedly encouraged by the overvaluation of the peso and expectations of a possible adjustment of the exchange parity.

Despite the aggravation of some of the problems described here, 1981 was characterized by the stability of the political climate and the relative calm in worker-employer relations. In the first place, the implementation of the Political Reform initiated in the course of the current presidential six-year period followed its course, with the approval of the Federal Law on Political Organizations and Electoral Processes (LOPPE) and the legitimization of the existence of several opposition political parties. Other factors which must have contributed decisively to this harmony were the expansion of employment opportunities deriving from the marked economic growth attained for the fourth consecutive year and the small increase in the purchasing power of the minimum wage.

In short, 1981 was a year of important achievements which were reflected in the expansion of production (particularly in some traditionally backward activities such as the food industry), the creation of job opportunities and the progress made towards a considerable diversification of the production apparatus. These achievements were obtained, however, concurrently with the accentuation of certain internal and external disequilibria, especially the growing deficit of the public sector, the similarly increasing balance of payments current account deficit and consequent rise in the external debt, the intensification of inflationary pressures and the loss of external purchasing power of the peso.

2. Trends in economic activity

(a) *Global supply and demand trends*

Within a global trend towards a growth pattern more open to the exterior, total supply of goods and services showed a high rate of increase of nearly 10%, although this was slightly less than that recorded in the last two years. Despite the decline in their rate of growth from 32% in 1980 to 24% in 1981, imports continued to be the most dynamic variable in the supply and demand context, and their share in the gross domestic product rose to 12%, a much higher proportion than that registered 10 years previously (see table 2).

In addition to the important effect on imports of the accelerated increase in domestic expenditure, the rise in the income-elasticity of external purchases shown by these figures reflected the increasing subordination of economic growth to the expansion of the country's capacity to import. This may be explained both by the higher degree of complexity of the investments in the infrastructure and in industry required by the country's present stage of development, and by the insufficient degree of intersectoral integration of the economic system.

The rapid increase in global supply was also due to the very considerable increase in the gross domestic product for the fourth year running. This grew by slightly more than 8% as a result of the vigorous expansion of all sectors of the economy and thus completed an exceptional increase of 38% in the last four years.

As regards global demand, investment expenditure of both the public and private sectors once again increased significantly. As a result, gross fixed capital formation rose 15% for the second year in succession and in 1981 was practically double the level recorded only four years previously. The high level and diversification of public investment were the result of government plans, notable among them a large number of construction works which represented two-thirds of the total public investment in fixed capital. Outstanding among these projects were those implemented by PEMEX for the expansion of the national system of pipelines and the port works connected with the petroleum sector. Considerable amounts were also expended on railway and electrification projects—in both generation and the transmission and distribution of electric energy. At the same time, work continued on road and public transport projects in Mexico City. The bulk of public sector investment in machinery and equipment, for its part, went to the steel, petrochemical and fertilizer industries.

Private investment also maintained the high growth rate of about 14.5% registered the previous year. As distinct from public investment, most of it (60%) consisted of purchases of machinery and equipment, primarily for the expansion of manufacturing, transport, construction and mining.

Table 2
MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	95 192	104 955	115 102	106.3	112.4	10.8	10.3	9.7
Gross domestic product at market prices	87 460	94 719	102 392	100.0	100.0	9.2	8.3	8.1
Imports of goods and services ^b	7 732	10 236	12 710	6.3	12.4	32.9	32.4	23.6
Total demand	95 192	104 955	115 102	106.3	112.4	10.8	10.3	9.7
Domestic demand	89 135	98 160	107 738	100.6	105.2	10.7	10.1	9.8
Gross domestic investment	21 925	26 770	30 491	20.8	29.8	17.8	22.1	13.9
Gross fixed investment	19 356	22 240	25 599	18.8	25.0	20.1	14.9	15.1
Public	10 973	12 566	14 376	4.9	11.0	21.3	14.5	14.4
Private	8 383	9 674	11 223	13.9	14.0	18.6	15.4	16.0
Changes in stocks	2 569	4 530	4 892	1.9	4.8			
Total consumption	67 210	71 390	77 247	79.8	75.4	8.6	6.2	8.2
General government	7 750	8 487	9 259	7.7	9.0	10.4	9.5	9.1
Private	59 460	62 903	67 988	72.1	66.4	8.3	5.8	8.1
Exports of goods and services ^b	6 057	6 795	7 364	5.7	7.2	12.2	11.8	8.2

Source: ECLA, on the basis of figures supplied by the Ministry of Programming and the Budget.

^a Preliminary figures.

^b The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

Table 3

**MEXICO: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC
ACTIVITY, AT FACTOR COST**

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	83 199	90 105	97 404	100.0	100.0	9.2	8.3	8.1
Goods	35 210	38 315	41 547	42.8	42.4	8.0	8.8	8.4
Agriculture, hunting, forestry and fishing	7 854	8 411	8 950	12.8	9.1	-2.1	7.1	6.4
Mining and quarrying	2 322	2 832	3 289	2.3	3.4	14.7	21.9	16.1
Oil production	1 295	1 718	2 080	0.9	2.1	21.9	32.7	21.1
Rest of mining	1 027	1 114	1 209	1.4	1.3	6.8	8.4	8.5
Manufacturing	20 436	21 908	23 551	22.8	24.0	10.6	7.2	7.5
Construction	4 598	5 164	5 757	5.0	5.9	13.0	12.3	11.5
Basic services	7 289	8 231	9 112	6.1	9.3	14.7	12.9	10.7
Electricity, gas and water	1 129	1 202	1 310	1.0	1.3	10.3	6.5	9.0
Transport, storage and communications	6 160	7 029	7 802	5.1	8.0	15.5	14.1	11.0
Other services	41 321	44 372	47 635	52.2	48.3	8.3	7.4	7.4
Wholesale and retail trade, restaurants and hotels	20 346	22 055	24 084	25.4	24.6	9.4	8.4	9.2
Financial institutions, insurance, real estate and business services	...	...	...	11.4	...	...	...	...
Community, social and personal services	20 975 ^c	22 317 ^c	23 551 ^c	15.4	23.7 ^c	8.6	6.4 ^c	5.5 ^c
Government services	2 882	3 179	3 449	3.0	3.5	10.4	10.3	8.5
Less: Imputed bank costs	...	...	...	1.1	...	...	...	...

Source: ECLA, on the basis of figures supplied by the Ministry of Programming and the Budget.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cFinancial institutions, insurance, real estate and business services included in community, social and personal services.

Total consumption grew by slightly over 8%, which is similar to the rate recorded, on average, in the preceding years. This increase is mainly attributable to the rise in private consumption (8%) as a result of the higher levels of income and employment, particularly in construction, agriculture manufacturing and commerce. The expansion of household expenditure was also influenced by the tax reductions effected for redistributive purposes. The increases in consumption had a markedly positive effect on the expansion of the manufacturing sector (whose products cover 60% of total private consumption), while the growth rate of imported consumer goods dropped significantly.

Public consumption continued to show considerable dynamism, although its rate of growth (9%) was slightly lower than that of the two preceding years. Disbursements on education and health services grew most rapidly, altogether absorbing 47% of the expenditure in this category.

Finally, the dynamic evolution of the volume of exports of goods and services continued in 1981, although the rate of growth fell somewhat from nearly 12% in 1980 to 8.4% in 1981. This drop was partly due to the sluggishness of non-traditional exports and tourism, since external sales of crude oil —although below the planned target— were 30% above those recorded in 1980, so that the share of hydrocarbons in exports of goods continued to grow. This share, which was minimal at the beginning of the past decade but rose rapidly as from 1976, neared 73% in 1981.

With due consideration of the differences with other oil-exporting countries (that is to say, bearing in mind the relatively much greater progress of Mexico's industrial production), from the strict standpoint of the composition of its exports, in 1981 Mexico continued its trend towards becoming a "single-export" country.

(b) *Growth of the main sectors*

As noted earlier, the performance of practically all sectors of the economy was satisfactory in 1981 (see table 3). The agricultural sector, particularly crop farming, once again grew much more rapidly than the population. A notable feature was the progress made in the production of basic grains, as a result of the government programmes designed to attain self-sufficiency in certain foodstuffs. Government policy also contributed to the rise in the growth rate of fishing, a sector in which persistent efforts have been made to stimulate because of its potential in improving the protein content of the diet.

As in 1980, mining output grew by 8.5% in 1981 thanks to the increased production of silver (among the precious metals) and of copper, lead and iron (among the metals for industrial use). In contrast, the growth rate of petroleum production, although very high (20%), was lower than in the preceding year owing to the aforementioned international marketing problems.

Table 4
MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of agricultural production (1970 = 100)	143.2	129.1	141.4	152.2	11.4	-9.8	9.5	7.6
Crop farming	135.2	125.7	138.5	151.4	10.0	-7.0	10.2	9.3
For domestic consumption	136.7	124.6	143.6	161.1	9.2	-8.9	15.2	12.2
For export	128.7	130.7	115.7	107.5	14.4	1.6	-11.5	-7.1
Stock-raising	155.1	133.8	145.3	153.3	11.6	-13.7	8.6	5.5
Indexes of production of the main groups of crops (1970 = 100)								
Grains	126.2	104.9	139.3	169.9	6.9	-16.9	32.8	22.0
Vegetables	174.5	183.1	167.5	141.1	25.4	4.9	-8.5	-15.8
Forage	178.9	163.5	187.4	166.9	9.6	-8.6	14.6	-10.9
Oilseeds	129.5	149.0	115.5	131.5	-4.3	15.1	-22.5	13.9
Fibres	106.3	99.9	94.7	98.4	-12.0	-6.0	-5.2	3.9
Industrial crops	104.7	105.6	110.3	104.5	17.5	0.9	4.5	-5.3
Fruit	153.6	146.9	149.3	158.3	19.8	-4.4	1.6	6.0
Main products ^{bc}								
Maize	10 930	8 449	12 383	14 766	7.8	-22.7	46.6	19.2
Grain sorghum	4 193	3 994	4 812	6 296	-3.1	-4.7	20.5	30.8
Beans	949	641	971	1 469	23.2	-32.5	51.5	51.3
Wheat	2 785	2 283	2 785	3 189	13.4	-18.0	22.0	14.5
Rice	402	495	456	644	-29.1	23.1	-7.9	41.2
Sugar cane	35 475	34 587	36 480	35 975	20.7	-2.5	5.5	-1.4
Coffee	242	223	193	217	33.0	-7.9	-13.5	12.4
Cotton fibre	366	345	329	344	-12.4	-5.7	-4.6	4.6
Tomatoes	1 394	1 533	1 458	1 093	43.1	10.0	-4.9	-25.0
Cotton seed	576	546	520	544	-12.6	-5.2	-4.8	4.6
Soya beans	334	702	312	712	-35.3	110.2	-55.6	128.2
Sesame	134	138	176	86	10.7	3.0	27.5	-51.1

Source: ECLA, on the basis of figures supplied by the Ministry of Agriculture and Water Resources.

^a Preliminary figures.

^b Thousands of tons.

^c Crop years.

Manufacturing showed promising signs —although its growth rate was lower than that of the economy as a whole— owing in particular to the increase in the manufacture of capital goods and consumer durables, especially notable being the expansion of the production of motor vehicles. The expansion of the domestic market, the industrial development policy and the coming on stream of projects initiated in previous years were the main causes of the growth of the manufacturing sector. Basic petrochemicals production grew at a higher rate than in the preceding year owing to the entry into operation of new plants which form part of PEMEX'S ambitious projects to supply both domestic and external markets with these raw materials in widespread industrial use.

In 1981 the construction boom also continued, benefiting from the expansion of the investment programmes of both the public and the private sector. Basic services, for their part, increased by about 11%: a very high rate but nevertheless somewhat lower than that recorded in the two previous years. The lessened dynamism of this sector was mainly due to the lower growth rate in 1981 of transport, storage and communications, which more than offset the increase in the production of electricity, gas and water.

Business services once again showed an increase similar to that of goods-producing activities, although lower than that of imports. Finally, public administration continued to expand rapidly, although at a slower rate than in the two preceding years, partly owing to the very high levels already attained in previous years by medical and educational services and partly to the cuts introduced in government expenditure in the last few months of the year.

(i) *The agricultural sector.* In 1981 the value added in the agricultural sector increased by approximately 6.5%, as the result of increments of 8.5% in the crop farming product, 3% in that of livestock production, and nearly 2% in that of forestry. Within crop farming itself, the performance was uneven, since for the second consecutive year the harvests of commodities destined to satisfy domestic consumption experienced an unusually large increase while those of export commodities once again decreased (see table 4).

Undoubtedly the outstanding fact of the year was that the production of maize and beans, which are basic items in the people's diet, reached a volume similar to that of domestic consumption of these commodities. According to government sources, this should be reflected in a drastic reduction or even elimination of imports of these commodities in the next agricultural year. The success achieved in this respect also had favourable redistributive effects because, thanks to the support prices established and other measures which are analysed below, there was an increase in the income and consumption of the rural population, particularly small-scale farmers on non-irrigated land, who produce a significant proportion of these commodities.

The grain harvests amounted to almost 27 million tons, or 22% more than in the previous year.⁴ This notable increase was due to both favourable weather conditions and to the official support provided to farmers by SAM. Prominent items among this support were the substantial increase for the third consecutive year in bank credit granted at low interest rates through BANRURAL; the 75% reduction in the prices of improved seeds and the wide distribution of these and "creole" maize by the National Seed Production Company; and the risk-sharing programmes between the authorities and producers, which encouraged the incorporation of previously unused land into production. In 1981 there was also a reduction in insurance premiums and an increase in the coverage of agricultural extension services, mechanization and the use of fertilizers.⁵

In addition to the firm support of SAM, the results obtained were influenced by favourable weather conditions which, altogether, permitted a significant increase in the area under cultivation. In 1981 the rainfall was timely and sufficient, and thanks to the collection of water in dams it was possible to sow second crops on previously unused land. As a result of this and the fact that there were fewer early frosts, new previously unused land was brought under cultivation.

⁴Total production of food crops was over 28 million tons, or 20% higher than in 1980.

⁵It is estimated that agricultural extension services reached farmers cultivating a little over 9 million hectares, the mechanization programme covered about 1.5 million hectares more than in 1980, and prices of fertilizers and pesticides dropped by around 30%.

Thus, the area harvested exceeded 18 million hectares, or a little over 1.5 million hectares more than in 1980. In particular, the measures described above meant that the area destined for basic crops increased to 80% of the total crop farming area, compared with 75% in the previous year. Thus, while the area used for the cultivation of grains and oilseeds increased by 12%, that used for export crops decreased by 5%.

Maize production rose by approximately 20% to a volume of nearly 15 million tons (see table 4). In addition to the aforementioned measures, other factors responsible for this were the increase of slightly over 45% in the support price and the reduction of harvesting losses.

Production of beans was 50% higher than in 1980 and amounted to nearly 1.5 million tons: the highest figure ever recorded. This exceptional increase, which in its turn was largely due to the fact that this crop was sown on highly productive land in the north-west of the country, was also partly due to the 25% rise in yield.

The production of over 640 000 tons of rice (40% more than in 1980) also sufficed to cover domestic consumption. The increase is largely attributable to the extension of the area sown in very rainy regions situated in the south-east of the country. With the harvesting of slightly over 3 million tons of wheat (15% more than in the previous year), self-sufficiency was nearly obtained in this crop too. The increase of approximately 30% in the sorghum harvest was to a great extent due to the possibility, already noted above, of sowing second crops on previously unused land in view of the high water level of the dams.

Production of oilseeds showed a very unequal performance, although altogether it increased 14%. The decrease in production and areas sown in the case of such seeds as sesame and safflower was probably due to the uncertainty concerning their future prices and the replacement of these crops by basic grains, in view of the preferential incentives provided for these crops. In the case of sesame, another influential factor was the drop in world prices in the sowing season, a fact which also affected the production of other export crops such as tomatoes, chickpeas, cocoa and tobacco.

With the exception of coffee and cotton, output of the rest of the export crops dropped sharply. This situation, which had already been observed in 1980, gave rise to manpower surpluses in the growing areas and a fall in the inflow of foreign exchange. The area used for the cultivation of export crops in the north-west of the country was reduced as a result of the limitation of access to the traditional export markets for chickpeas and vegetables and the significant increase in their production costs.

In contrast, in 1981 the production of coffee, which had declined in the two previous years, partially recovered. This increase, however (obtained partly through the favourable rainfall), was not sufficient to regain the level of output achieved in 1978.

Production of cotton followed a similar trend: after having suffered continual reductions in the previous three years, it increased by a little over 4.5% in 1981, but was also far from attaining the volume harvested in 1977.

In contrast, the tomato harvest declined for the second year running, this time very significantly (25%), and thus fell back to a level below that of 1977. This was largely the result of the lack of competitiveness suffered by this crop in comparison with the United States production because of the increase in domestic costs. The production of all vegetables destined for export, together with that of melons and watermelons, likewise decreased. Also affected by increased costs, the strawberry crop dropped by 30%, and the sesame, garlic and cocoa harvests also declined. In addition to the causes already mentioned, other factors in these decreases were the government policy of restricting the production of sesame to the level needed to cover domestic demand and the fall in the world price of cocoa.

The performance of livestock production in 1981 was uneven. Total production of carcass meat (beef, pork, mutton, goat and poultry) was over 2 million tons in 1981, bringing the annual per capita average to slightly over 32.5 kilogrammes. Production of beef increased at the very high rate of over 9%; in contrast, output of other important items such as eggs rose by only 3% and that of milk by a little over 1.5%: a rate well below that of population growth.

The recovery of cattle production was stimulated by the increase in demand, the rise in domestic prices, and the rainfall, which was beneficial to pastures. For the second consecutive year,

however, exports were low, owing partly to the differential between domestic prices and those of the United States market.

The very small increase in the production of eggs, which made external purchases necessary, was due to increased costs, and in particular the price-fixing policy, which discouraged investment, and led to the insufficient replacement of flocks and a decline in the number of laying hens. These factors were also the main causes of the still smaller increase in the production of milk.

The value of total exports of agricultural commodities dropped by 5%, thus accentuating the deterioration in their share in total external sales. The uneven trends of external sales and imports of agricultural commodities caused a negative balance in international trade in these goods of over US\$ 760 million, which is 90% higher than the previous year's deficit. The deficit for the agricultural sector as a whole, for its part, came to over US\$ 900 million.

Agricultural purchases from abroad maintained their volume, although owing to the rise in prices they increased by over 20% in value. Basic food commodities (grains and oilseeds), which represent over 90% of agricultural imports, were mainly responsible for this increase. Purchases of grains were made with the aim of having sufficient reserves to guarantee domestic consumption in 1981, but, as noted earlier, in view of the harvests in the latest agricultural year they should diminish or disappear in 1982. Purchases of oilseeds increased in value by about 80% in 1981.

Lastly, imports of certain industrial products of agricultural origin, such as sugar (US\$ 360 million), powdered milk (US\$ 110 million) and evaporated milk (US\$ 115 million), were also very high.

Table 5

MEXICO: INDICATORS OF MINING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of mining production (1970 = 100)	123.2	130.1	141.0	153.0	1.9	5.6	8.4	8.5
Precious metals	121.3	117.6	113.6	120.4	6.4	-3.1	-3.4	6.0
Non-ferrous industrial metal	112.4	122.2	140.8	158.8	-1.3	8.7	15.2	12.8
Metals and minerals for the steel industry	161.5	172.5	190.6	206.8	1.6	6.8	10.5	8.5
Non-metallic minerals	114.9	118.2	124.8	125.3	8.9	2.9	5.6	0.4
Production of some important minerals								
Precious metals								
Gold ^b	6 283	5 911	6 096	5 919	-5.0	-5.9	3.1	-2.9
Silver ^c	1 579	1 537	1 473	1 578	7.9	-2.7	-4.2	7.1
Non-ferrous industrial metals								
Lead ^d	171	173	146	159	4.3	1.7	-16.1	9.1
Copper ^d	87	107	175	243	-2.8	22.9	63.8	38.3
Zinc ^d	245	245	238	208	-7.8	0.2	-2.9	-12.8
Bismuth ^c	978	754	770	701	34.2	-22.9	2.1	-9.0
Cadmium ^c	1 894	1 778	1 791	1 429	6.3	-6.1	0.7	-20.2
Metals and minerals for the iron and steel industry ^d								
Coke	2 491	2 589	2 409	2 483	2.2	3.9	-6.9	3.0
Iron ore	3 556	4 041	5 087	5 545	-0.9	13.6	25.9	9.0
Manganese	188	177	161	206	7.5	-5.8	-9.3	28.2
Non-metallic minerals ^d								
Sulphur	1 818	2 025	2 102	2 233	-2.0	11.4	3.8	6.2
Fluorite	960	875	916	806	45.5	-8.9	4.7	-12.0
Barite	231	151	269	285	-14.5	-34.7	78.2	6.0

Source: ECLA, on the basis of data from the Ministry of Programming and the Budget.

^aPreliminary figures.

^bKilogrammes.

^cTons.

^dThousands of tons.

(ii) *Fishing.* Basically as a result of the support policy envisaged in the National Fisheries Development Plan, catches registered an average annual growth of over 20% in the period 1977-1981. This raised the production volume over that period from 670 000 to 1.5 million tons. The species whose catch grew most included squid, tuna, sardines and monkfish, all of which more than doubled in volume over that period.

In 1981, the gross domestic product of the fisheries sector rose by over 10% which, combined with its diversification and the increase in employment generated, made it one of the most dynamic activities of the economy, particularly if compared with that of the livestock sub-sector which is the main provider of animal proteins.

In 1981 the industrial fish processing capacity increased by 60% and the production of canned sardines and tuna—in which the share of para-State enterprises was 70%—grew by 75% and 80%, respectively.

This expansion, however, has not been accompanied by similar dynamism in the consumption of these products, mainly owing to insufficient refrigeration capacity and bottlenecks in the distribution apparatus, both public and private, which limit the marketable volume and raise the prices for the final consumer. Marketing continues to be one of the most difficult problems affecting fishery activities, despite the efforts made and the Government's aim of establishing mechanisms to ensure a permanent supply of fishery products for the whole population.⁶

On the other hand, the development of fishery activities and, above all, the diversification of the catch, permitted exports to rise steeply. Thus, the value of external sales—of which shrimps represented nearly two-thirds in 1980—grew between 1977 and 1980 at an average annual rate of 35%, resulting in a trade surplus in these products of nearly US\$ 420 million in 1980. In 1981, however, the surplus dropped to US\$ 365 million, mainly owing to the 10% drop in the value of shrimp exports. This decrease was partly due to the institutional problems arising over the transfer of ownership of the shrimp fleet from shipowners to members of co-operatives. This transfer, however, made it possible to programme the diversification of the catch in the close season for shrimp, so as to make full use of the industrial plant.

(iii) *Mining and petroleum activities*

Mining. In spite of the various obstacles to the development of mining, such as the contraction of external demand, the drop in world prices of most mining products, the increases in domestic production costs and the difficulties in the country's railway and port operations, mining activities maintained the dynamism which characterized them in 1980, growing by 8.5% (see table 5).

Some factors in this expansion were, in the first place, the effects of the big demand for fertilizers and cement, and in general the increased purchases for the construction, steel and motor-vehicle industries, and, secondly, the entry into operation of new mines and the increased capacity of processing and refining plants as a result of the substantial investment in this sector in the past few years and the constant government support for this activity, which included, among other incentives, the supply of electric power at low prices.

Despite the appreciable drop in world prices of several mining products, the growth of mining output also permitted the value of exports of these commodities to increase by nearly 40% in 1981.

As a result of investments in 1981, the capacity for processing natural ore to obtain silver, lead and zinc increased by 5 350 tons per day, while the capacity for producing copper ore rose by 2 000 tons per day. During the year a new plant was also completed for the production of 600 000 tons of sulphur annually, the barite production capacity was increased by 240 000 tons annually, and the capacity for producing zinc and silver-containing lead concentrates was raised by 30 000 tons and 4 000 tons, respectively. In addition, a ferro-alloy plant was expanded and a coal-washing plant was built.

⁶As part of the official policy of financial support for the fisheries sector, BANPESCA raised the credit provided between 1980 and 1981 from 5 to 9 billion pesos, 80% of which was granted on preferential terms.

After two years in which the production of precious metals fell by over 3%, it increased by 6% in 1981. This was mainly due to the dynamism shown by the production of silver (of which Mexico continues to be the main world producer), which rose 7% thanks to the exploitation of more productive deposits.⁷ This offset the effects of the drop in the world price which, in contrast, caused the production of gold to fall by 3%.

The group of non-ferrous industrial minerals registered the largest increase (13%), although the rate of growth was slightly below that of the previous year. The biggest impetus observed was the 38% growth of copper output and the rise of over 9% in the production of lead, which more than compensated for the effects of the considerable decreases in the extraction of zinc, bismuth and cadmium. The notable increase in copper production originated mainly in the La Caridad mine and was also partially linked with the closure in the United States of one of the biggest smelters and refineries in the world.⁸ The dynamism shown by the extraction of lead for its part, was stimulated by the increase in domestic demand, since external demand contracted significantly: a situation which also affected zinc (because of the new substitutes) and bismuth and cadmium, whose world prices fell sharply.

The group of minerals and metals for the steel industry grew by 8.5%, which was slower than in 1980. Production of both coke and iron ore, which expanded by 3% and 9% respectively, failed to satisfy domestic demand. However, progress continued on important projects which will start operating in 1982, with the joint participation of State and private steel enterprises, and in some cases with the support of PEMEX.⁹ Notwithstanding the increment of over 25% in the production of manganese ore, of which Mexico possesses one of the biggest deposits in the world, this was of low metal content (27%) and was sent for export, so that high-grade manganese ore (50%) had to be imported.

Non-metallic minerals as a whole showed no increase at all in production, since although sulphur and varite grew by 6% —the latter thanks to the development of a new mine in the west of the country— the production of fluorite (in which Mexico occupies first place in the world) contracted by 12%. This decline was due to the fact that South Africa and China have tended to displace Mexico from its principal market (the United States). On the other hand, the increased production of sulphur made it possible to achieve the SAM goals as regards the manufacture and export of fertilizers.

Finally, in 1982 nearly 6 million tons of salt obtained from the biggest salt deposit in the world, in Lower California, were produced and exported. This volume represents about 40% of total world trade in this commodity, making Mexico the leading exporter of salt in the world market.

Petroleum activities. Production of crude petroleum once again showed a considerable increase (20%) in 1981, attaining a daily average of 2.3 million barrels. Nevertheless, its rate of growth was lower than the 27% achieved on average in the three-year period 1978-1980. Thanks to the higher output it was possible to increase exports by 33% and at the same time to supply the 11% increase in domestic demand (see table 6). Prospecting activities also continued to be promoted in 1981. The production and export goals established at the beginning of the year, however, were only fulfilled to the extent of a little over 80% and 70% respectively, owing to the problems arising in the world market for hydrocarbons in the middle of the year.

⁷In addition to the expansion of the facilities for processing natural ore undertaken in 1981, a noteworthy development was the entry into operation in 1982 of the Real de Angeles silver mine, the biggest open-cut silver mine in the world.

⁸Apparently due to the rise in production costs generated by legal requirements in connection with environmental pollution.

⁹Thus the State group SIDERMEX is developing the Hércules mine with a capacity of 3 million tons annually, and in the north of the country a pelletizing plant with the same capacity will be completed in 1982. The State enterprise SICARTSA, for its part, will expand the existing mines adjacent to the Las Truchas steel plant to supply a new 3 million ton pelletizing plant which will enter into operation in 1983. Finally, the private HYLSA company will raise its production of concentrates to supply a new pelletizing plant with a capacity of 1.5 million tons annually.

The changes in the structure of both domestic and external demand caused prospecting to be directed primarily towards the fields of light and extra light oils. As a result, the volume of proven reserves increased by nearly 20% to 72 billion barrels, giving a useful life of 60 years at the current rate of output. This increment derived mainly from the 14 volatile oil, gas and condensate deposits found in the Reforma area.

In 1981, world consumption of petroleum pursued its downward trend owing to the industrialized countries' economic stagnation, the measures adopted to conserve energy, and the replacement of petroleum by other energy sources. All this, combined with the utilization of the substantial reserves stored in the industrialized countries, led to a surplus supply which gave rise to a market in which purchasers had greater influence. This caused a declining trend in world prices, especially of heavy crude, and this also affected the light oils.

These changes in the world market had repercussions on the development of petroleum activities in Mexico,¹⁰ where it was even necessary to close down some wells, partly because of the decrease in sales from June onwards and partly on account of the limited storage capacity. PEMEX consequently modified its original production programme, which envisaged an average volume of 2.8 million barrels a day and would have meant a growth of 44% over the previous year's figure. In practice, crude output between March and June came fairly close to this goal with an average of 2.5 million barrels a day. In July, however, when some external sales contracts were cancelled, production fell drastically to 460 000 barrels a day, and even though in the ensuing months a trend towards a recovery was observed, the level of the first few months of the year was not regained.¹¹

Table 6

MEXICO: INDICATORS OF PETROLEUM ACTIVITY

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Index of petroleum production (1970 = 100)	195.2	232.5	296.4	348.9	19.1	25.7	17.7
Production of main items							
Petroleum ^b	485	591	779	932	21.7	32.0	19.6
Crude and condensate	442	537	708	844	21.5	32.0	19.1
Gas liquids	43	54	71	88	25.7	32.0	24.5
Natural gas ^c	26 474	30 146	36 772	41 972	13.9	22.0	14.1
Refined petroleum products ^b	326	358	425	471	9.7	18.6	10.8
Gasoline	90	104	120	132	15.9	15.3	9.8
Diesel oil	73	79	89	98	8.5	13.8	10.2
Fuel oil	89	87	113	127	-2.6	30.2	12.2
Others ^d	74	88	103	114	17.9	15.5	11.1
Exports							
Crude oil ^b	133	194	302	401	46.0	55.3	32.7
Natural gas ^c	-	-	2 903	3 008	-	-	3.6
Others indicators ^b							
Proven reserves	40 194	45 803	60 126	72 008	14.0	31.3	19.8
Domestic consumption of petroleum	352	396	477	532	12.5	20.5	11.4

Source: Petróleos Mexicanos (PEMEX).

^a Preliminary figures.

^b Millions of barrels.

^c Millions of cubic metres.

^d Including kerosene, jet fuel, lubricants, asphalt, liquefied and dry gas, paraffin wax and greases.

¹⁰The price of Mexican crude had to be adjusted in the following manner: the 24th Mayan crude dropped from US\$ 34.50 per barrel in March 1981 to US\$ 32 in April and US\$ 28.50 from August onwards, while the 34th Isthmus crude fell from US\$ 38.50 per barrel in May to US\$ 34.50 in June and remained around that figure for the rest of the year.

¹¹The international situation described above is compelling the Government to review the future growth rates of this activity in several respects, including that related to the policy of external indebtedness followed hitherto in order to expand production and refining capacity. This policy had been justified, in spite of the increase in nominal interest rates in the world market, because of the marked upward trend that had been observable in world prices of crude and, in general, the prospects of increased exports of this product.

The southern zone, where the major part of production is generated, maintained its share in 1981, producing 92% of national output. In this zone, production in the Gulf of Campeche continued to increase its share and even exceeded that of the mainland Cretaceous area, which had been responsible for the increases achieved in previous years.

Production of natural gas totalled 42 billion cubic metres, or 14% more than the year before, thus reaching the goal set by PEMEX in the National Energy Programme. Of this output, 75% was associated with the production of crude and came almost entirely from the southern zone. A bigger proportion of gas was flared off than in 1980 and equalled 16% of total output. The proportion of gas flared off from the underwater wells was still 96%, but it is hoped that this percentage will be drastically reduced when it is possible to feed the gas into the national pipeline system. Exports of natural gas to the United States remained practically at the same level as in 1980, i.e., 290 million cubic feet per day, or the equivalent of 7% of the national output.

Owing to the aforementioned world market trends, it was decided to process a bigger volume of crude locally and some headway was made in studies aimed at improving techniques so as to obtain higher quality petroleum products and at making fuller use of the heavy crude from the Gulf of Campeche. In 1981 the volume processed increased by 10%, which permitted an increase in production of the main petroleum products; consequently, stocks of these rose towards the middle of the year. In view of the rapid growth of domestic consumption, however, inventories declined and distribution problems arose at the end of the year. In addition, the growth of the consumption of gasoline for automobiles at rates higher than that of the gross domestic product necessitated the restructuring of the system of prices of these petroleum products in December. Within the processing activities, the volume of gas was a little over 10% greater than in 1980, while the daily average of liquids recovered from natural gas increased by 24%. Finally, investment during the year amounted to 230 billion pesos, or 90% more than in 1980, and was destined mainly for continuing the programmes of construction of petrochemical plants, recovery plants and pipelines.

(iv) *The manufacturing sector.* In 1981 the growth of the manufacturing sector lagged slightly behind that of the economy as a whole for the second year in succession. The gross manufacturing product rose 7.5%, while the total domestic product increased by rather more than 8%.

This fact is somewhat surprising, since it has long been a characteristic of the Mexican economy that this sector's growth-elasticity with respect to the total product has been considerably higher than unity. It is probably a conjunctural phenomenon seemingly influenced by several factors, notably: specific problems of various branches of industry which caused their growth to be very slow in relation to the whole; the decrease owing to certain problems indicated below with respect to the volume of exports of manufactured products, which, although representing only 5% to 10% of the value of manufacturing output, have a significant incidence in certain sectors; the relatively erratic and below-normal production of consumer goods, particularly foodstuffs and textiles; and the considerable inflow of imported consumer goods—some of them unregistered—promoted to some extent by the relative cheapening of these products owing to the overvaluation of the peso.

At all events, the manufacturing sector's performance in 1981 reflected the persistence of a process of rapid expansion following the critical situation experienced in 1976 and 1977. The main factors in this growth were: the dynamism shown by the global economy for the fourth consecutive year; the consequent rise in the level of domestic demand, which was supported in 1981 by the increase in the purchasing power of the middle- and lower-income population strata due to the reduction in taxes; the 12% growth of real expenditure on construction, which stimulated demand for certain intermediate goods and generated new income and employment; and, lastly, the increase in employment in other sectors of the economy.

There were also some positive factors on the supply side, influenced on the one hand by the coming on stream of many of the investments and expansions effected under the incentives provided by the "Alliance for Production", and on the other hand by the intensification of the import substitution process, especially with respect to capital goods (involving substantial joint

investment by the State and foreign enterprises) and some intermediate goods (petrochemicals, cement, fertilizers, motor-vehicle parts and copper products).

Furthermore, the selective fiscal incentives at the level of branches of industry within the context of the Industrial Development Plan continued to operate, as also did those provided by SAM, in support of the production of basic goods. The manufacturing sector also received a significant increase in credit (43%).

Other factors, however, adversely affected the sector's development. Among those of external origin may be noted the difficulties in placing an increasing volume of manufactures abroad as a result of at least four factors: the boom in the domestic market, which reduced exportable surpluses; the lower competitive capacity as a result of the overvaluation of the peso; the protectionist restrictions and measures imposed by importing countries; and the decrease in investment resources due to the increased remittances of liquid funds abroad in the face of devaluation expectations. Among the factors of domestic origin (in addition to the persistence of inflationary pressures) the limitations in the capacity of transport and storage facilities continued—although on a lesser scale than in the preceding year—and because of the general boom in the economy the lack of skilled personnel at all levels was felt more keenly, despite the persistent efforts made in the last few years to alleviate this problem.

Table 7

MEXICO: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes (1970 = 100)				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Index of manufacturing production	162.0	176.4	189.1	203.3	9.2	8.9	7.2	7.5
Foodstuffs, beverages and tobacco	136.1	143.4	152.0	159.8	5.7	5.4	6.0	5.1
Textiles	119.3	126.8	127.3	135.8	-0.7	6.3	0.4	6.7
Clothing	166.0	179.3	185.0	194.6	3.6	8.0	3.2	5.2
Wood	114.6	118.4	126.6	13.4	5.9	3.3	6.9	3.0
Paper	163.8	169.9	187.4	196.0	11.4	3.7	10.3	4.6
Printing and publishing	127.9	149.3	167.8	175.0	2.3	16.7	12.4	4.3
Rubber products	170.3	164.9	191.1	179.6	22.1	-3.2	15.9	-6.0
Basic petrochemical products	218.8	251.2	275.1	319.7	18.1	14.8	9.5	16.2
Other chemical products	200.5	193.9	200.9	218.4	1.8	-3.3	3.6	8.7
Petroleum products	175.3	191.8	215.2	238.9	6.3	9.4	12.2	11.0
Non-metallic minerals	191.8	207.1	225.3	240.6	7.6	8.0	8.8	6.8
Steel products	169.2	184.9	191.2	199.0	18.0	9.3	3.4	4.1
Machinery, equipment and metal products	198.6	228.0	250.8	273.1	12.4	14.8	10.0	8.9
Transport equipment	194.3	238.0	275.6	338.4	32.9	22.5	15.8	22.8
Production of some important manufactures								
Beer and stout	156.2	176.0	189.2	206.6	4.9	12.7	7.5	9.2
Fertilizers	158.9	161.7	172.9	212.7	-7.9	1.8	6.9	23.0
Artificial fibres	279.5	314.9	336.9	360.1	7.0	12.7	7.0	6.9
Cast iron	224.6	216.5	227.1	232.1	20.2	-3.6	4.9	2.2
Automobiles	176.7	211.3	227.4	259.7	27.0	19.6	7.6	14.2
Trucks	225.5	287.5	352.5	455.1	43.0	27.5	22.6	29.1
Other indicators of manufacturing production								
Consumption of electricity by industry ^b	25.7	28.0	29.2	32.0	10.0	8.9	4.3	9.5

Source: ECLA, on the basis of official figures.

^aPreliminary figures.

^bBillions of KWH.

As a result of these factors and the accelerated growth of demand, the deficit on trade in manufactured products with other countries rose by 35% in 1981 to nearly US\$ 17 billion. This deficit originated mainly in the metal products, machinery and equipment sector, whose negative balance totalled US\$ 11 billion.

Continuing the trend of the last few years, the branches of manufacturing production showing the biggest increases were capital goods (18%) and durable consumer goods (8%). In contrast, intermediate goods and ordinary consumer goods rose by only 7% and 6% respectively.

Among non-durable consumer goods, there was a 6% increase in the production of foodstuffs, notably meat, fisheries products, soluble coffee, biscuits, beer, soap and edible oils. In contrast, the production of sugar and of fruit and vegetable preserves contracted by 6% and 5%, respectively, while that of tobacco remained at the same level. The textile industry, for its part, continued the erratic performance that has characterized it in recent years, this time registering an increase of close to 7% (see table 7).

The rise in production of consumer durables was determined mainly by the increase in the manufacture of automobiles (14%), notably that of 8-cylinder cars, which rose by 30%.¹² Production of household electrical appliances grew by 11%, the dynamism of refrigerators, gas stoves, washing machines, compressors and electric motors being particularly notable; among the smaller appliances, a sharp increase was recorded in the manufacture of electric irons, juice extractors, fans, mixers and water purifiers. In contrast, the manufacture of radios, television sets and record players fell by 1%, possibly as a result of the illegal introduction of these goods into the country.

Output of non-metallic intermediate products grew by 7% and the sectors related to agricultural production increased at a higher rate, encouraged by the demand generated by SAM. Thus, the production of fertilizers, which is carried out wholly by the State through FERTIMEX, expanded by 23%. This growth was due to the completion of projects started in previous years, the construction of new plants and the increased efficiency owing to the elimination of certain technical problems, as well as the expansion of some ammonia and sulphur plants by PEMEX. Nevertheless, production was still insufficient to supply the whole of domestic consumption, because of the high demand for these goods deriving from the vigorous growth of the agricultural sector, so that the value of imports of these products rose by 64%.

In response to the continuing growth of the construction industry, the sectors providing inputs such as cement, asbestos cement, sheet glass and glass fibre grew at a higher rate than the average for the group of non-metallic intermediate goods. Production of cement, in which the country is almost self-sufficient, rose by 11%, thanks to the maturity of substantial investments in new plants and expansions in response to the incentives provided by the Cement Industry Development Programme, which was reflected in an increase of over 30% in installed capacity.

In spite of the contraction of external demand for yarn, both natural and artificial, production rose by 7% and 9% respectively as a result of the considerable expansion of domestic demand; something similar occurred in the case of henequen yarn, production of which rose by 5%. In contrast, because of the problems arising in some enterprises producing pulp and paper, this sector grew by only 4%: a lower rate than demand. In turn, production of paper declined and it was necessary to import large quantities.

In line with the large crop increases, production of wheat flour, starch, farinaceous products and yeast grew by 13% each, but there was a significant drop of 3% in the output of maize flour, used mainly in the production of tortillas, which rose 6% in response to the incentives and subsidies provided within the context of SAM policies.

Production of animal feed stagnated owing to the shortage of fish meal, since the species with which this is manufactured were used primarily for human consumption, in keeping with the guidelines laid down by SAM.

¹²Owing to the low degree as yet of national integration, especially in the case of luxury automobiles, this sector continued to show the biggest external deficit in manufacturing.

Production of tyres and inner tubes not only failed to meet the heavy demand generated by the motor-vehicle industry but actually decreased by rather more than 5% as a result of labour disputes in the producing enterprises and the insufficient production of butadiene, an essential material in their manufacture. The result was that imports of these products almost tripled.

Production of cellulose and artificial fibres stagnated, despite the greater availability of raw materials deriving from the boom in the basic and intermediate petrochemicals industry, because for reasons of fashion and price the consumption of these fibres by the textile industry has been going down.

Finally, within the group of non-metallic intermediate products particular dynamism was shown by the basic petrochemicals industry as a whole (a strategic activity belonging entirely to the State), which grew by 16%. Notwithstanding this and the substantial investments made, the supply of petrochemical products in general remained a factor of disequilibrium in the balance of payments.

For its part, the production of basic chemicals rose by almost 5% and that of other chemical products by nearly 9%. As regards petroleum products, output of liquefied gas, gasoline and diesel oil increased by approximately 12%, that of fuel oil by 10% and that of petroleum liquids by 26%.

Production of intermediate metal products grew by 7%, mainly owing to the increased output of steel, steel tubes, copper products, and bodies and chassis for the motor-vehicle industry; in contrast, aluminium goods, tin cans and crown caps declined.

The recovery of crude steel production (7%) after its stagnation in 1980, directly benefited all branches of steelmaking, although their production rose by only 4%. This recovery was due to the substantial investments made and the elimination of the bottlenecks which had occurred in 1980 on account of technical and labour problems, inadequate availability of electric energy, and the insufficiency of iron ore and coke production. On the other hand, there were decreases in the production of steel castings and ferro-alloys, while problems persisted in the secondary rolling of iron and steel, which grew by only a little over 1%.

Production of seamless steel tubes also increased very little and substantial imports were necessary in order to meet the great demand generated by PEMEX and the construction industry. On the other hand, the manufacture of seamed steel tubes increased by 14%, that of tubular profiles by 44% and that of engineering tubing by nearly 19%, giving an overall growth rate of nearly 14%. The strong demand for steel products once again necessitated substantial imports of steel tubing piping and fittings, bars and ingots, slabs, wire and cable, bearings and plates.

Output of copper products grew by 16%, in spite of the difficulties in the manufacture of electrolytic copper owing to the fact that the blister produced locally does not meet the technical refining requirements. During the year, large amounts were invested in smelting and refining, so a substantial improvement is expected. Although the production of electrolytic copper fell by more than 40%, the substantial imports of this item permitted the output of products manufactured from copper (wire and cable, sheet and brass) to grow at an exceptionally rapid rate, although production of tubing and shapes decreased.

The growth rate of the capital goods group was the highest of the whole manufacturing sector (18%) and its share in total manufacturing output rose from 7.7% to 8.5%, although it still lags far behind the position occupied by this item in Argentina and Brazil. The terminal motor-vehicle industry and those producing railway equipment, electronic equipment and apparatus and office machines made most progress, with 29%, 33%, 36% and 8%, respectively.

Production of trucks and tractors for hauling trailers registered unprecedented growth rates (38% and 27%, respectively), which largely helped to alleviate the transport sector problems. The manufacture of automobile spare parts increased in line with the vigorous dynamism of the terminal motor-vehicle sector, while that of passenger, and freight bodies for trucks increased 14%. In contrast, the production of both buses (-25%) and trolley-buses (-58%) decreased during the year. At the end of 1981 a plant for the manufacture of 4-cylinder automobile engines started operating with a production capacity of 270 000 units per year, of which 80% will be exported.

In the railway equipment industry, the construction of railway wagons dropped by 12%, while output of materials rose by nearly 80% and work continued successfully on the construction

of carriages for the underground transport system. The manufacture of these carriages was initiated in 1981, and they incorporate national technological improvements.

In the electronic equipment and apparatus industry the production of telephone exchanges, switchgear and transmission channels grew at a very rapid rate (36%) and adequately supplied Teléfonos de México and the private sector.

In contrast, the moderate expansion of the industry producing agricultural machinery and implements (4%) was somewhat surprising in the light of the growing needs in this connection deriving from the agricultural policy. There was however a 13% increase in the production of medium-power agricultural tractors (60-80 HP).

In 1981, as a result of the promotion efforts and direct action by the State to put into execution the Programme for the Promotion of Capital Goods, important joint investment enterprises were set up with majority contributions of State capital and minority contributions from foreign companies which in addition contributed the technology. This programme comprises the following items: steel, steam turbines, alternating current electric generators, heavy machinery in general and construction machinery, large-diameter tubing for the transmission of gas, hydraulic turbines for the generation of hydroelectricity, equipment for generating electric energy from non-conventional sources, gears and reduction gear assemblies, crown wheels and agricultural tractors.

The industrial policy measures decreed in 1981 were mainly directed at providing fiscal incentives for specific sectors (capital goods, basic commodities, processed foodstuffs, cement, shipbuilding and bicycles) and to the sectors related to the construction of low-cost housing. Among the industrial promotion instruments, those with most impact during the year were public funds and trust funds. Another factor was the reintroduction of prior import permits —mainly for manufactures— due to the large trade deficit and the role the previous liberalization process had played in it. On the other hand, the export promotion policy did not manage to prevent the stagnation of external sales of manufactures, which were restricted by factors such as the boom in the domestic market, the recession in purchasing countries, strong foreign competition, the increase in protectionist tariff barriers and the drop in prices.

A noteworthy feature of the manufacturing sector as a whole was the impetus given to small and medium-scale industries, which, although they only generate around 30% of the manufacturing product, absorb a great deal of manpower. Thus, in 1981 the financing provided by the Guarantee and Development Fund for Small and Medium-Scale Industry (FOGAIN) rose by 150% to 17.5 billion pesos. Preferential attention was also given to the provision of incentives to the priority economic areas defined in the National Industrial Development Plan, and to branches of industry operating with national capital and producing foodstuffs, metal products, footwear and leather, machinery other than electrical, clothing, rubber and plastics, non-metallic minerals, textiles, wood products and furniture, books, chemical products and transport equipment.

(v) *Construction.* For the fourth year in succession the construction sector attained a high rate of growth (12%). This notable expansion was partly the result of the assignment of a considerable volume of resources to projects connected especially with the development of the petrochemicals industry and the construction of industrial ports and other infrastructure works, and partly reflected the accelerated growth of the construction of dwellings, in particular for the upper-middle and upper strata. The rapid development of construction was accompanied by that of industries providing it with inputs, which guaranteed timely and sufficient supplies, at controlled prices, of cement, non-flat steel products, copper, glass, wood, non-metallic minerals, and equipment for installation. In 1981 construction was also stimulated by the implementation of the new Public Works Law and its accompanying Regulations.¹³

¹³Among other positive aspects of this Law may be mentioned its flexibility as regards the system for contracting prices, since it allows them to be adjusted according to expected increases and contractors to be classified, among other criteria, according to their location in the country, thus tending to promote entrepreneurial development at the regional level. This Law also provides for advance payments for building work without interest charges, thus reducing the financial costs and enabling builders to capitalize their profits in order to work with more resources of their own than of third parties.

As in the previous three years, the construction boom generated a notable expansion of employment. In 1981 the sector employed nearly 1.9 million persons, thus creating more than 200 000 new jobs, mainly for unskilled and semi-skilled workers (see table 8).

Thanks to the 40% increase in its value, public construction represented more than 57% of total construction and thus became the most important factor in the sector's development. The most noteworthy projects were undertaken in the petroleum, petrochemicals, electric energy, steelmaking and fertilizer industries, together with infrastructure works for industrial ports, railways, airports, highways and rural roads, sewerage, drinking water and urbanization. There was also a significant increase in expenditure on social works such as the building of rural medical units, schools, parks and gardens and lighting. The sector's expansion was likewise stimulated by the progress made in the work of extending the underground railway in Mexico City to a length of 60 km, and the deep drainage system, also in Mexico City, to a length of 80 km.

As regards the execution of low-cost housing projects within the context of the national Housing Programme, the Decree and Regulations on which were promulgated at the end of 1980, the two most important official bodies concerned with this activity financed the construction of nearly 90 000 units (36% more than in the preceding year): 54 000 by the National Workers' Housing Fund Institute (the highest figure achieved since the Institute was established) and 36 000 by the Bank Operating and Discount Fund for Housing.

(vi) *Basic services*

Electricity. The policy of expanding this activity continued in 1981. The completion of works initiated in previous years increased the total installed capacity by 19%, representing an additional supply of 2 800 MW. These works included the Chicoaén hydroelectric plant initiated in 1974, whose installed capacity is 1 500 MW, and thermal plants constructed by various federal bodies, with a capacity of around 750 MW.

For its part, electricity generation increased by 10%, thus exceeding its growth rate of the previous year (6.5%) and regaining its average growth rate for the last 10 years. This increase was due to the intensive use of the capacity of several plants, the solution of technical problems connected with the maintenance of equipment which arose in the first half of the year, and the entry into operation of the José López Portillo coal-fired plant.¹⁴

Table 8

MEXICO: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of volume of production (1970 = 100)	163.7	186.9	211.2	236.5	13.3	14.2	13.0	12.0
Production of main construction inputs (thousands of tons)								
Non-flat steel products								
Reinforcing rod	1 134	1 307	1 525	1 623	17.4	15.3	16.7	6.4
Light shapes	256	344	342	312	7.1	34.4	-0.6	-8.9
Heavy shapes	224	252	241	273	52.4	12.5	-4.4	13.2
Grey and white cement	14 056	15 178	16 243	17 978	6.3	8.0	7.0	10.7
Refractory bricks	196	245	277	297	10.1	25.0	13.1	7.2
Flat glass	75	83	86	89	5.6	10.7	3.6	3.5
Employment (thousands of persons)	1 330	1 493	1 662	1 895	14.4	12.3	11.3	14.0

Source: ECLA, on the basis of official data.

^aPreliminary figures.

¹⁴This plant which started to operate with the inauguration of a first unit, represented an important achievement in the policy designed to diversify primary sources of energy, since it meant less dependence on hydrocarbons. It is the first large-capacity plant in the country to use non-coking coal as a primary energy resource. In addition to the unit that has been brought into service there will be three others of equal size (300 MW each), which altogether will give an installed capacity of 1 200 MW in 1983.

At the same time, progress continued towards greater technological independence through the import substitution policy and the stimulation and orientation of the capital goods programme, which has resulted in the manufacture in the country of a large number of goods destined for the electricity industry, including highly complex technical equipment.

Transport. Although in 1981 there was a slight slackening in the rate of growth of the transport sector, its expansion (10%) was in any case very high, particularly if the difficulties it has been facing, which became very serious at the end of the 1970s, are taken into account.

The high investment in infrastructure for the mass transport media—railways, pipelines and ports—which far exceeded that made in the highway system, continued in 1981. Thus, investment in the construction of industrial and fishing ports and the laying of electrified railway track were the priority items, while the expansion of the national pipelines system for the transport of petroleum and petroleum products continued to be the most important item in terms of resources utilized. Substantial funds were also assigned to the construction of rural and local roads, while investment in arterial highways went mainly for their conservation.

At the same time, the efficiency of freight transport improved owing to the decongestion of the service through improvements in organization and the distribution of priorities, the entry into operation of the pipelines system (whereby PEMEX reduced the amount of cargo previously carried by railway and truck) and the slower rate of growth of imports. The efficiency of the system was also stimulated by the fiscal incentives given to industries to develop their own distributive transport apparatus.

The cargo carried by rail increased 5%, while the amount moved in terms of ton-kilometres rose by 6%.

In the case of Ferrocarriles Nacionales de México, a notable feature was the increase in cargo consisting of agricultural commodities (13%). In contrast, the number of passengers carried fell by almost 4%.

Port movements in 1981 registered a total of 133 million tons and thus rose 7%, a much lower rate than that observed in the previous year (29%). A basic factor in this was the smaller increase in exports and in coastal shipping. On the other hand, the Shipbuilding Promotion Programme showed good results in 1981 with the expansion and construction of shipyards in which vessels of medium tonnage will be built, especially for fishing. Nevertheless, heavy imports were still made to meet cargo and fishing requirements.

Transport of cargo by road was also given considerable impetus, an example being the fact that the production of trucks increased by 38%. In contrast, passenger transport was affected by the contraction in the production of buses. A noteworthy event was the take-over by the Municipality of urban transport in Mexico City in the last quarter of the year, when concessions to private operators were withdrawn and the Government assumed full responsibility for the service. This measure was adopted because of the deterioration the service had suffered in recent years, the poor state of many of the units in service and their irregular schedules. On assuming responsibility for it, the Government froze fares, reorganized the routes, acquired new units and gave drivers the status of public employees. Nevertheless, owing to organizational problems, the lack of units to satisfy demand (4 000 obsolete units were obtained from the previous owners and 1 500 new units were purchased, but the real needs amounted to 8 000) and labour disputes in connection with the institutional change, the problems affecting the service given to users continued, although tending to diminish.

(vii) *Domestic trade.* Commercial activities turned in a dynamic performance in 1981, slightly more so than in the previous year, owing mainly to the expansion of the domestic market with the increase in employment and income in both urban and rural areas. Other factors contributing to the increase in purchasing power were the reductions made in income tax for redistributive purposes and also the fact that as from January 1981 foodstuffs were exempt from payment of the value added tax, thus joining the 29 manufactured products included in the "workers' basket", which had been freed from tax in September 1980.

Furthermore, the continued increase in imports of goods (whose volume rose 22%) and the expansion of the manufacturing sector, combined with the unfavourable evolution of exports in this sector, led to an increasing flow of all types of manufactures to the domestic market. Inflationary expectations, which tended to increase in the course of the year, probably helped to stimulate the expansion of sales, particularly of consumer durables. The significant increase in sales over the previous year's level was also favoured by the credit support given to workers through the national Workers' Consumption Fund (FONACOT).

Although it is estimated that in 1980 retail trade conducted by the State through the distributing body (DICONSA) of the National Popular Supply Company (CONASUPO) amounted to only about 10% of the total volume of products marketed in the country, its role became increasingly important, and in 1981 this distribution system substantially raised its sales (by 43%) to a total of 37.5 billion pesos. As in the previous year, about 80% of this total represented sales to the urban population and the rest to the rural sector. The number of commercial establishments of CONASUPO practically doubled to around 10 500 units, the majority (80%) of the shops being in rural areas. This substantial increase in the distribution network was partly due to the role played in it by the Co-ordination Bureau of the National Plan for Depressed Areas and Marginal Groups (COPLAMAR), since under the joint programme of these two institutions nearly 5 300 units were established in 1981, all located in rural communities.¹⁵

3. The external sector

In 1981 the economy was subject to strong pressures in its relations with other countries. Various factors contributed to the increase in the trade deficit and to the fact that it was necessary to have increasing recourse to external borrowing.

As noted earlier, in March and April hydrocarbon exports were attaining the average goal established for the year (1.3 million barrels a day). From then on, however, they fell drastically and had still failed to regain that level at the end of the year. This shortfall and the drop in sales prices meant that both the volume and value of petroleum sales grew at much lower rates than those expected at the beginning of the year.¹⁶

As a result of this, of the unfavourable evolution of non-petroleum exports and the persistent growth of imports, from the middle of the year onwards an attempt was made to set limits on the policy of opening up the economy which had been followed in previous years. The re-establishment of prior import permits as from June, combined with the establishment of quotas for each type of product, helped to bring the growth of external purchases below the rate of the previous year, although it was still very high.¹⁷

Furthermore, the low level of integration of domestic components in national industry, which (among other factors) is responsible for the high income-elasticity of demand for imports, contributed jointly with the overvaluation of the peso to the fact that the reactivation of the economy as a whole was reflected in a further rise in the import content of global supply. The maintenance of a relatively low exchange parity also stimulated tourism to other countries and discouraged foreign visitors to Mexico.

Because of the situations described above, a considerable deficit (US\$ 4.4 billion) was recorded on the balance-of-payments trade account. In addition, factor payments increased dramatically with respect to previous years, owing to the incidence of the high interest rates prevailing in the international capital markets and the considerable increase registered by the

¹⁵Notwithstanding the considerable expansion of the distribution network in rural areas, its share in the value of sales did not increase, since the average volume of sales of rural shops fell by one-third owing to the fact that the additional shops established that year served communities with less population density.

¹⁶It is estimated that the amount received was some US\$ 7 billion less than originally expected.

¹⁷This was partly due to the fact that the effect of the prior permits was only relative, since one-third of total imports originated in the public sector's investment programmes, which had already been decided upon beforehand.

external debt. Thus, the current account deficit rose to nearly US\$ 13 billion, a record figure more than double the negative balance recorded only two years earlier and almost four times the 1978 figure.

Moreover, the growing expectations of a sudden change in the parity of the peso, the advance payment of external liabilities against that possibility, and the high level reached by interest rates in world markets were some of the factors responsible for the fact that the uncontrolled outflow of capital reached an unusually high level.

In short, the inflows of foreign exchange required to meet payment commitments abroad and to maintain the exchange rate reached a level without precedent in the country's economic history. Thus, the official sector contracted debts for nearly US\$ 15 billion, a notable feature being the significant increase in official short-term inflows, which was an expedient little used in the past. Altogether, capital inflows exceeded the deficit on current account and permitted the international reserves to increase once again by about US\$ 1.1 billion.

(a) *Merchandise trade*

In 1981, trade in goods registered a dynamic performance compared with other economic variables, although there was a certain slowing-down with respect to the previous year in both external purchases and sales. The latter experienced a growth in real terms of 12%, compared with 25% in 1980, while the volume of imports rose by 22% after having grown at an average annual rate of 33% in the previous three years. This was partly because the unit value of external purchases increased much less than in the three preceding years, which, linked with the rise in the price of oil, permitted a further improvement, although somewhat slighter, in the terms of trade (see table 9).

(i) *Exports.* The rapid growth of sales of hydrocarbons to US\$ 14.4 billion raised their share to 73% compared with 63% in the previous year (see table 10). Accordingly, a determining factor in the slowing-up of the growth of total external sales was the decline recorded in the growth rate of exports of hydrocarbons, which fell from 155% in 1980 to 41% in 1981.

The unit value of exports continued to rise, although much more slowly than in the preceding year. This slackening was due not only to the performance of the price of hydrocarbons, but also to the fall in the price index of exports by the mining sector and the stagnation of that of agricultural commodities.

Table 9
MEXICO: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods						
Value	15.6	32.5	35.7	48.9	74.6	22.1
Volume	2.3	20.2	30.2	17.7	24.7	11.9
Unit value	13.0	10.2	4.2	26.5	40.0	9.1
Imports of goods						
Value	-8.1	-2.5	42.1	51.8	52.9	24.9
Volume	-11.6	-5.2	31.4	35.8	32.5	22.3
Unit value	3.9	2.8	8.1	11.8	15.4	2.1
Terms of trade (goods)	8.7	7.0	-3.5	13.2	21.7	6.5
Indexes (1970 = 100)						
Terms of trade (goods)	114.9	122.9	118.6	134.3	163.5	174.1
Purchasing power of exports of goods	146.4	185.0	233.6	312.9	477.6	560.4
Purchasing power of exports of goods and services	140.2	151.9	193.7	242.3	327.5	382.2

Source: ECLA, on the basis of official data

^aPreliminary figures.

Despite the fact that for the reasons already given the volume of petroleum exports declined sharply in the middle of the year, for the whole year they exceeded the 1980 level in real terms by 32%. Furthermore, and notwithstanding the fall in the price of hydrocarbons from the second quarter onwards, the unit value of total petroleum exports rose by an average of about 7% over the preceding year.

In contrast with the considerable increase in the value of petroleum exports, that of the rest of external sales declined by 8%. This reflected a considerable deterioration in their volume, particularly in the case of agricultural and fisheries exports, despite the relatively satisfactory increase in production in these two activities.

Sales of basic commodities of agricultural origin dropped by 5% to a value of US\$ 1.4 billion. Sales of coffee beans fell drastically (-20%) owing to the dual effect of the decrease in both export price and volume which was reflected in an increase in inventories within the country. Inflows of foreign exchange from sales of melons, watermelons and cocoa also declined. In contrast, in 1981 the value of exports of tomatoes and pulses and green vegetables rose, in spite of the fact that the quantities sold diminished appreciably. These shortfalls, however, were more than offset by the sharp increases in the prices of these commodities on the United States market owing to frosts in that country.

Table 10
MEXICO: EXPORTS OF GOODS, FOB^a

	Millions of dollars				Percentages breakdown		Growth rates		
	1978	1979	1980	1981 ^b	1970	1981 ^b	1979	1980	1981 ^b
Total	6 312	9 306	16 244	19 899	100.0	100.0	47.4	74.6	22.5
Hydrocarbons	1 799	3 861	10 306	14 432	2.6	72.5	114.6	166.9	40.0
Petroleum and petroleum products	1 799	3 861	9 857	13 910	2.6	69.9	114.6	155.3	41.1
Natural gas	-	...	449	522	-	2.6	...	...	16.3
Non-petroleum products	4 513	5 445	5 938	5 467	97.4	27.5	20.6	9.0	-7.9
Main traditional exports	1 438	1 782	1 693	1 632	30.5	8.2	23.9	-5.0	-3.6
Coffee beans	386	575	415	333	6.0	1.7	49.0	-27.8	-19.8
Shrimps	315	360	383	344	4.4	1.7	14.3	6.4	-10.2
Cotton	309	310	321	301	8.6	1.5	0.3	3.5	-6.2
Tomatoes	198	207	185	250	7.5	1.3	4.5	-10.6	35.1
Pulses and fresh vegetables	101	154	172	186	0.8	0.9	52.5	11.7	8.1
Fresh fruit	76	97	109	84	2.0	0.4	27.6	12.4	-22.9
Sulphur	53	79	108	134	1.2	0.7	49.1	36.7	24.1
Main non-traditional exports	866	972	1 173	1 021	15.3	5.1	12.2	20.7	-13.0
Mechanical and electrical machinery and equipment	277	289	475	395	4.2	2.0	4.3	64.4	-16.8
Parts for motor-vehicles	267	269	285	266	7.5	1.3	0.7	5.9	-6.7
Automobiles and trucks	68	117	129	107	-	0.5	72.1	10.3	-17.0
Vegetable and fruit preparations	92	90	92	82	1.1	0.4	-2.2	2.2	-10.9
Ammonia	51	79	90	122	-	0.6	54.9	13.9	35.6
Refined lead	48	72	55	30	1.8	0.2	50.0	-23.6	-45.4
Refined zinc	63	56	47	19	0.7	0.1	-11.1	-16.1	-59.6
Others	2 209	2 691	3 072	2 814	51.6	14.6	21.8	14.2	-8.4

Source: ECLA, on the basis of data supplied by the Banco de México, S.A.

^aExcluding sub-contracting.

^bPreliminary figures.

Table 11

MEXICO: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1978	1981 ^a	1979	1980	1981 ^a
Total	8 411	12 741	19 496	24 302	105.2	104.7	51.6	53.0	24.6
Consumer goods	447	1 002	2 426	2 773	5.6	11.9	124.2	142.1	14.3
Sugar	-	...	562	360	-	1.6	...	...	-35.9
Beans	1	4	241	336	...	1.4	300.0	...	39.4
Milk	37	64	186	225	0.5	1.0	73.0	190.6	21.0
Automobiles	26	110	155	190	0.3	0.8	323.1	40.9	22.6
Butane and propane gas	74	55	145	150	0.9	0.6	-25.7	163.6	3.4
Intermediate goods	5 356	7 406	11 028	13 141	67.0	56.6	38.3	48.9	19.2
Automobile components	612	786	949	1 111	7.7	4.8	28.4	20.7	17.1
Maize	162	102	589	448	2.0	1.9	-37.0	477.4	-23.9
Iron and steel sheet products	181	236	564	481	2.3	2.1	30.4	139.0	-14.7
Automobile and truck spare parts	136	237	374	474	1.7	2.0	74.3	57.8	26.7
Sorghum	161	160	308	409	2.0	1.8	-0.6	92.5	32.8
Parts for electrical installations	114	178	270	371	1.4	1.6	56.1	51.7	37.4
Chemical products for industry	129	182	222	266	1.6	1.1	41.1	22.0	19.8
Paper and paperboard	57	109	206	188	0.7	0.8	91.2	89.0	-8.7
Capital goods	1 981	3 577	5 032	7 190	24.8	31.0	80.6	40.7	42.9
Metalworking machinery	112	214	409	684	1.4	2.9	91.1	91.1	67.2
Textile machinery	162	254	337	399	2.0	1.7	56.8	32.7	18.4
Drilling machinery	106	276	327	493	1.3	2.1	160.4	18.5	50.8
Pumps	160	270	299	464	2.0	2.0	68.8	10.7	55.2
Aircraft and aircraft parts	95	185	274	314	1.2	1.4	94.7	48.1	14.6
Agricultural tractors	92	184	186	125	1.2	0.5	100.0	1.1	-32.8
Unclassified goods	208	146	65	110	2.6	0.5	-26.9	-55.5	69.2
Total imports, FOB	7 992	12 131	18 551	23 214	100.0	100.0	51.9	52.9	25.1
Public sector	2 841	4 029	6 754	8 181	35.5	35.2	41.8	67.6	21.1
Private sector	5 151	8 102	11 797	15 033	64.5	64.8	57.4	45.6	27.4
Insurance and freight	419	610	945	1 088	5.2	4.7	45.6	54.9	15.1

Source: ECLA, on the basis of data supplied by the Banco de México, S.A.

^a Preliminary figures.

Mining exports improved in 1981, in particular owing to the higher income obtained from copper, zinc ore, barium sulphate, manganese and sulphur. On the other hand, the value of sales of silver and gold dropped by 33%.

For their part, exports of manufactures remained static. Only sales of some chemical products and plastic and rubber products increased.

The authorities' efforts to increase external sales continued in 1981 through promotional measures adopted by the Mixed Advisory Commission on External Trade Promotion. Thus, new fiscal support was provided by means of a substantial improvement in Tax Return Certificates (CEDIS), and additional financial support was provided, in particular by the Fund for the Promotion of Exports of Manufactures.

(ii) *Imports.* In 1981 the value of imports of goods rose by 25%. Because of this increment and the even bigger ones registered in the previous two years, such imports thus almost trebled in value between 1978 and 1981 (see table 11). The increase recorded in 1981 was largely due to purchases of capital and intermediate goods in connection with the growth of public and private investment, which still has a high import content.

Although the share of purchases of consumer goods in the total was only 12% in 1981, compared with 57% and 31% for intermediate and capital goods, it was nevertheless double the figure recorded only three years previously. Even so, its growth rate, which had reached exceptionally high levels in 1979 and 1980, dropped sharply in 1981 and was much lower than the growth rates of imports of intermediate goods and, in particular, capital goods. In fact, the latter rose by over 40% for the second year in succession. Owing to this and the even more rapid increase registered in 1979, their value in 1981 was equal to 3.6 times that recorded only three years earlier.

From an institutional angle, public sector imports represented 35% and increased by US\$ 1.4 billion, mainly because of the purchase of capital goods and intermediate products required by the investments of para-State enterprises. The rest of the public sector's imports consisted of consumer goods of agricultural origin (especially beans, wheat, sorghum, soya beans, oilseeds and dairy products), pursuing the policy of "full warehouses" aimed at maintaining sufficient reserves to satisfy demand. In contrast, as a result of the favourable harvest the year before, maize imports declined considerably in volume.

Purchases by the private sector, for their part, reached a total of 15 billion pesos, which is 27% higher than the previous year's figure. As in the case of the public sector, the increases were mainly due to the purchase of capital and intermediate goods.

At the level of industrial branches, the largest purchases continued to be concentrated on metal products, machinery and equipment, which came to US\$ 12 billion or 50% of total imports. Of these, US\$ 2.6 billion was accounted for by the motor-vehicle industry, a fact which caused the government to adopt measures —not as yet reflected in the year's results— to restructure its production by means of stricter control of the foreign exchange budget, limitations on the production of large luxury automobiles and an increased level of integration of the motor industry with the rest of the manufacturing sector.

(b) Services trade and factor payments

The services balance, which had traditionally registered a surplus, changed from a positive balance of US\$ 200 million in 1980 to a deficit of nearly US\$ 1.1 billion in 1981, the first in living memory (see table 12).

The increasing overvaluation of the peso was one of the factors most responsible for this situation, since it encouraged bigger growth of outflows than inflows of foreign exchange under the head of tourism, and even though the net balance under this head remained in Mexico's favour (at only about US\$ 200 million, the lowest level in the last few years), it was running a deficit in the second half of the year. This contraction was due both to a decline in the tourism subsector and to the appreciable increase in expenditure on this item incurred by Mexicans abroad.

The former is mainly attributable to two factors: (i) the economic recession in the United States —the principal country from which tourists visit Mexico— which had direct repercussions on the inflow of visitors and their length of stay and expenditure, and (ii) the increasing overvaluation of the peso, which made the price of tourist services for visitors more expensive (see table 13 and figure 2). As a result of this situation, the levels of hotel room occupation and the income generated thereby dropped considerably this being practically the only economic activity which experienced slow growth in Mexico in 1981.

At the same time the increased expenditure by Mexican tourists abroad is attributable to the contrary effects of the overvaluation of the peso, together with the economic boom which Mexico experienced for the fourth consecutive year and which enabled a larger proportion of the population to go abroad. These effects were mutually reinforcing and contributed to the fact that while income from tourism (US\$ 1.76 billion) rose by only 5%, which in fact meant a contraction in real terms, the outflow in respect of tourism (US\$ 1.5 billion) increased by nearly 50%.¹⁸

¹⁸A surprising fact recorded in 1981 was that the average expenditure by Mexican tourists abroad was 35% higher than that of foreign tourists in Mexico.

Table 12

MEXICO: BALANCE OF PAYMENTS

(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	7 079	8 043	11 020	15 322	23 693	28 782
Goods FOB	3 475	4 604	6 246	9 302	16 241	19 837
Services ^b	3 604	3 439	4 774	6 020	7 452	8 945
Transport and insurance	181	200	250	318	450	497
Travel	2 233	2 122	3 208	4 133	5 200	6 242
Imports of goods and services	8 426	7 855	11 537	17 051	25 809	33 204
Goods FOB	5 771	5 625	7 992	12 132	18 551	23 166
Services ^b	2 655	2 231	3 545	4 919	7 258	10 038
Transport and insurance	508	487	779	1 128	1 931	2 379
Travel	1 617	1 183	2 152	2 936	4 178	6 150
Merchandise balance	-2 295	-1 021	-1 745	-2 831	-2 310	-3 329
Trade balance	-1 347	188	-516	-1 729	-2 116	-4 422
Profits and interest	-2 218	-2 211	-2 847	-3 972	-5 736	-8 699
Profits	-666	-401	-676	-927	-1 283	-1 827
Interest received	124	168	405	693	981	1 332
Interest paid	-1 675	-1 979	-2 576	-3 739	-5 435	-8 204
Unrequited private transfer payments	129	153	104	132	132	125
Balance on current account	-3 435	-1 870	-3 259	-5 570	-7 720	-12 997
Unrequited official transfer payments	27	16	88	94	144	180
Long-term capital	4 994	4 611	5 121	5 176	7 260	15 199
Direct investment	628	556	824	1 337	1 846	2 253
Portfolio investment	430	1 345	737	-392	-70	648
Other long-term capital	3 936	2 710	3 560	4 231	5 484	12 298
Official sector ^c	1 092	1 077	362	-180	655	...
Loans received	1 101	1 143	857	1 753	1 153	...
Amortization payments	9	-67	-495	-1 933	-498	...
Commercial banks ^c	1 850	893	1 006	1 246	1 125	...
Loans received	2 398	2 273	3 338	3 452	2 551	...
Amortization payments	-548	-1 379	-2 331	-2 206	-1 426	...
Other sectors ^c	994	740	2 192	3 165	3 704	...
Loans received	1 742	1 787	4 246	6 107	5 320	...
Amortization payments	-701	-982	-2 037	-2 960	-1 627	...
Basic balance	1 585	2 757	1 949	-299	-316	2 382
Short-term capital	863	-2 431	-1 421	-32	3 284	4 224
Official sector	312	-292	-1	33	-51	...
Commercial banks	952	-469	-837	1 076	2 333	...
Other sectors	-401	-1 669	-583	-1 140	1 003	...
Errors and omissions (net)	-3 040	49	-98	647	-2 059	-5 520
Balance on capital account	2 843	2 246	3 690	5 886	8 627	14 083
Global balance ^d	-592	376	430	316	906	1 086
Total variation in reserves ^d (minus sign indicates and increase)	681	-384	-455	-399	-1 037	-1 133
Monetary gold	83	-6	-6	-4	-3	-8
Special Drawing Rights	100	-56	1	-144	56	-34
IMF reserves position	115	-	-	-	-128	-60
Foreign exchange assets	-19	-405	-194	-46	-727	-662
Other assets	33	-55	-46	-42	-100	-370
Use made of IMF credit	371	138	-211	-163	-136	-

Source: 1976-1980: International Monetary Fund, *Balance of Payments Yearbook*; 1981: ECLA, on the basis of official data.

^a Preliminary figures.

^b Services also include other official and private transactions, but exclude profits and interest.

^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^d The difference between total variation of reserves with contrary sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Furthermore, border transactions also suffered the adverse impact of the overvaluation of the peso and for the first time turned in a negative balance.¹⁹ Income from assembly activities grew by 27%, a higher rate than in the previous year, but failed to regain the rapid growth rate recorded two years previously, owing to the recession which continued to affect the United States economy on whose evolution this activity depends.

Income and expenditure under the head of transport services increased more slowly in 1981 (11% and 23%, respectively), in keeping with the lesser dynamism shown by foreign trade in goods and the minor adjustment in maritime freight rates in 1981.

The factor which did most to accentuate the deficit on current account, however, was external factor payments. Interest payments amounted to US\$ 8.2 billion, 50% higher than in the previous year and more than double the total disbursements effected under this head only two years previously. About 70% of these disbursements corresponded to payments by the public sector. This expenditure together with remittances of profits by foreign companies operating in the country, accounted for two-thirds of the current account deficit (see table 12).

(c) Financing of the current account position and external indebtedness

In 1981 short- and long-term capital inflows together exceeded US\$ 19.4 billion, which is 84% higher than the 1980 figure. These inflows, together with the use of Special Drawing Rights to the value of US\$ 30 million, made it possible to finance the current account deficit, increase international reserves and deal with the considerable outflow of uncontrolled capital, which was partly reflected in the US\$ 5.5 billion total for "errors and omissions" (see table 12).

Table 13
MEXICO: EVOLUTION OF INDEXES OF EFFECTIVE REAL
EXCHANGE RATES FOR EXPORTS AND IMPORTS^a

(1980 = 100)

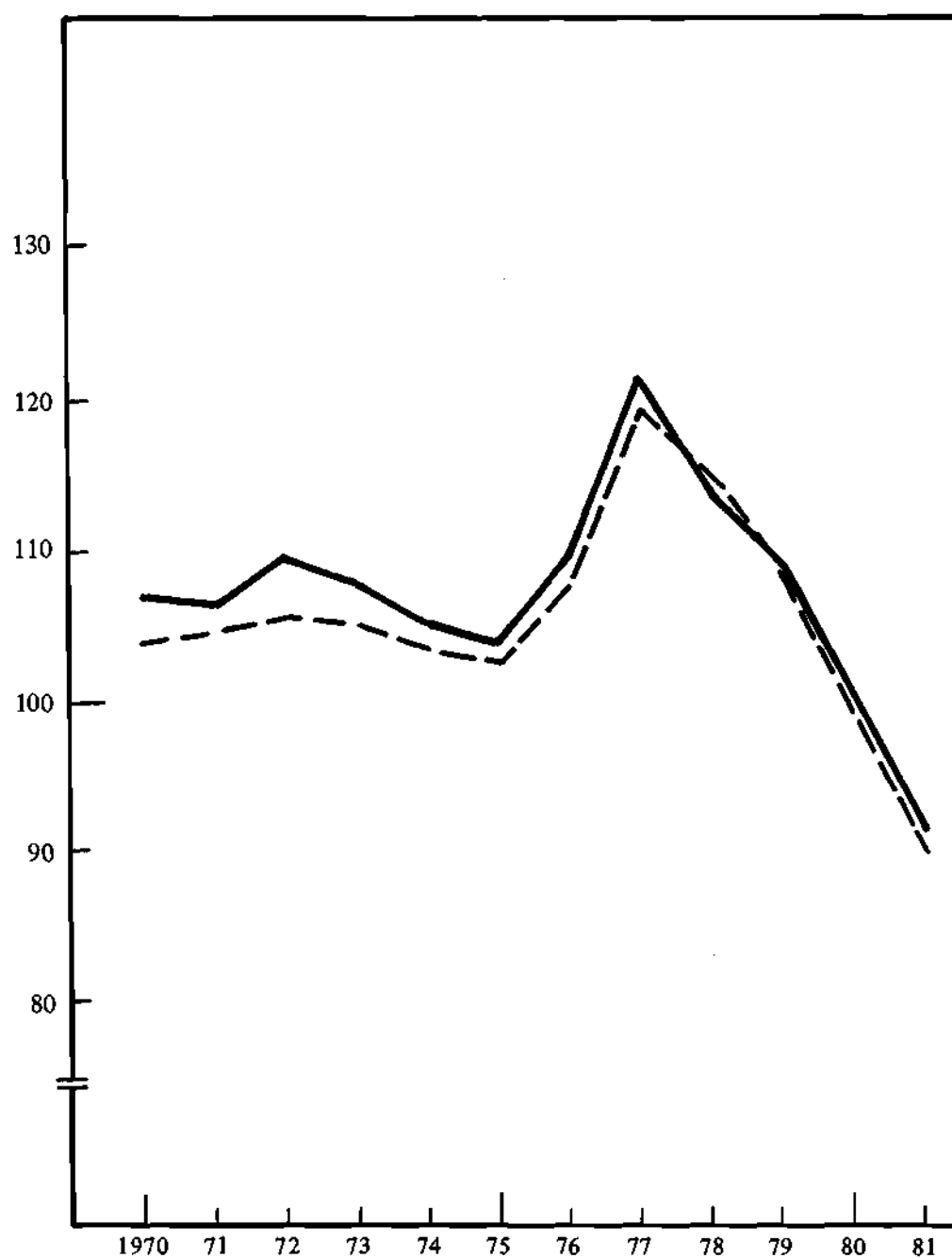
Annual and quarterly averages	Exports	Imports
1970	106.8	103.9
1971	106.5	104.2
1972	109.5	108.0
1973	108.3	107.4
1974	105.4	103.4
1975	103.9	102.5
1976	109.4	107.6
1977	120.7	119.2
1978	114.1	114.8
1979	109.1	109.1
1980	100.0	100.0
1981	91.4	90.2
I	94.7	94.0
II	92.6	91.2
III	90.7	88.9
IV	88.5	87.4

Source: Statistical Appendix.

^aThese indexes are obtained by multiplying the share of exports or imports by the indexes of the real exchange rate (table 4). The sum of these product gives the indexes of the effective real exchange rates. For further details, see Introduction to the Statistical Appendix and tables 1 to 5 of the section dealing with Mexico.

¹⁹If the payments received by temporary farm labourers "braceros" are excluded.

Figure 2
MEXICO: EVOLUTION OF INDEXES OF EFFECTIVE REAL
EXCHANGE RATES FOR EXPORTS AND IMPORTS
(1980 = 100)



Source: Table 13.

The inflow of long-term capital increased in absolute terms by more than US\$ 7.9 billion over the previous year, while short-term capital inflows rose US\$ 1.9 billion. In the latter case, the expansion was basically due to the notable increase in short-term liabilities of the official sector —US\$ 2.9 billion— which had never before been utilized to such a large extent and to which it was necessary to have recourse because of the financial difficulties experienced by the public sector in the middle of the year on account of the decrease in the volume of petroleum exported. Net long-term capital inflows, for their part, totalled US\$ 15.2 billion, which was more than double the figure for the previous year. This exceptional increase was mainly due to the larger amounts borrowed by the public sector in connection with the large-scale investment programme carried out during the year, which totalled over US\$ 11.5 billion or nearly three times the amount registered in 1980.

These movements of capital stepped up the total cumulative external public debt at the end of the year to nearly US\$ 49 billion, and within this total the short-term debt went up from US\$ 1.5 billion in 1980 to US\$ 8.7 billion in 1981. In its turn, the private debt rose from a little under US\$ 15 billion in 1980 to approximately US\$ 19 billion in 1981, thus more than doubling in the last two years. In these circumstances, the total external debt rose from less than US\$ 49 billion at the end of 1980 to nearly US\$ 68 billion in 1981 (see table 14).

Service payments on the external debt increased significantly in 1981, mainly owing to the rise in interest payments, with the result that interest and amortization payments absorbed 54% of the value of exports of goods and services. This proportion, although much larger than that registered in 1980, was nevertheless well below those recorded in the previous three years (see table 14).

Table 14
MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS

(End-year balances in millions of dollars)

	1976	1977	1978	1979	1980	1981 ^a
Total external debt	25 813	29 111	33 253	38 992	48 656	67 712
Public ^b	19 600	22 912	26 265	29 757	33 813	48 712
Long-term	15 923	20 185	25 028	28 315	32 322	40 041
Short-term	3 677	2 727	1 237	1 442	1 491	8 671
Private ^c	6 213	6 199	6 988	9 235	14 843	19 000
Net annual increase	585	-14	789	2 247	5 608	4 157
Long-term	341	104	260	756	1 488	1 469
Short-term	244	-118	529	1 491	4 120	2 688
Servicing of external debt	3 584	5 202	7 311	12 792	10 025	15 621
Public	2 188	3 837	6 287	10 174	7 681	11 307
Amortization payments	1 156	2 295	4 264	7 286	3 723	5 800
Interest payments	1 032	1 542	2 023	2 888	3 958	5 507
Private	1 396	1 365	1 024	2 618	2 344	4 314
Amortization payments ^d	754	928	475	1 769	865	1 604
Interest payments	642	437	549	849	1 479	2 710
Total as a percentage of exports of goods and services	50.7	64.7	66.3	83.4	42.3	54.3

Source: ECLA, on the basis of data supplied by the Banco de México, S.A.

^a Preliminary figures.

^b Including financial intermediation.

^c Estimates on the basis of the net annual increases, based on the 1981 balance.

^d Outflow of foreign exchange under the head of net short-term assets (capital account).

4. Prices, wages and employment

(a) *Prices*

Owing to the big growth of global demand and the magnitude of the fiscal deficit, the rate of inflation remained at a very high level for the second consecutive year. Thus, the variation in the consumer price index between December 1980 and December 1981 was nearly 29%: only just below the 1980 figure, which in turn, was the highest registered in the past 30 years. Wholesale prices rose by 27%, thus slightly exceeding their increase in the previous year (see table 15).

In general, official prices registered considerable increases, the most significant adjustment (150%) being in fuels; strictly speaking, these increases represented a reduction in the subsidies which the Government had been granting through the prices of the products distributed by State enterprises, which also include services such as household gas and electric light. Prices of clothing, footwear and accessories, fuels, lighting and gross rentals recorded higher than average increases, with significant repercussions on the living levels of the lower-income families. The public sector tried to counteract them by means of fiscal policy measures such as income tax relief, exemption from the value added tax on basic commodities and incentives to their production and marketing, as well as support for the programmes of the National Workers' Consumption Fund (FONACOT), which granted credit at highly subsidized interest rates to over 1 700 000 persons.

(b) *Wages*

To protect the income of the population, minimum wages were raised by a higher percentage than the variation in the consumer price index: a policy departing from the trend followed since 1977. Partly as a result of this, real minimum wages rose by rather more than 2% in 1981. Nevertheless, this increase was insufficient to compensate for the 11% loss in their purchasing power between 1977 and 1980 (see table 16).

At the beginning of the year the nominal minimum wages for rural and urban areas were made equal as part of the demographic policy designed to retain the population in their place of origin; at the same time, the number of categories of wages and their differentials was reduced from 18 areas to only 8, and the differences between maximum and minimum wages were brought down from 100% in 1980 to 55% in 1981.

At the same time, stronger support was given to marginal areas through COPLAMAR, whose resources were increased by 37%,²⁰ and the Intersectoral Commission for the Promotion of Co-operatives began operating, its terms of reference being to co-ordinate the work of all the departments of the central government and federal bodies in this field. Training and Co-operative Employment for the Promotion of Natural Resources in Marginal Areas was the main programme which entered into operation.

Wages in manufacturing increased by approximately 40%. Furthermore, certain reforms were put into effect which enabled the number of workers covered by the Mexican Social Security Institute to be increased for the third consecutive year, this time by 11%, thus bringing its coverage up to 30% of the workers employed in the country.

(c) *Employment*

Apart from the improvements in wages and benefits of different kinds received by the workers, the number of jobs increased significantly as a result of the general expansion of the economy and the implementation of the policies seeking to reduce both open employment and underemployment, in line with the Employment Plan adopted in 1980. Thus, it is estimated that employment grew by 5.4%, after having risen 6.3% in 1980. This meant that the open unemployment rate among the active population dropped from 5.3% in 1980 to 4.5% in 1981,

²⁰Thus, continued support was given to specific efforts in connection with social security, distribution of low-cost food, training, extension of primary education in rural areas, drinking water supply, and improvement of dwellings.

which is equal to only two-thirds of the level recorded four years earlier (see table 17). The natural increase in the economically active population, which has represented an annual average of 900 000 persons in the last four years, was also absorbed in 1981, and this provides good reason for assuming that underemployment went down, although it is difficult to assess in what proportion.

In 1981 there was a marked accentuation in the disequilibrium in the labour market between the structures of labour supply and demand in terms of level of training and area of residence. This disequilibrium, which had been growing up in previous years and is caused by the requirements of an increasingly complex productive apparatus and the high and sustained rate of production growth, meant that in a number of cases it was difficult to find suitable skilled personnel for specialized work.

Concurrently with the rise in the coefficients of labour turnover, income expectations increased and some distortions in the organization of production were accentuated and began to have repercussions on manufacturing processes (reduction in the number of shifts for want of specialized manpower, poor quality and unsatisfactory finish of products, etc.).

Table 15
MEXICO: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981
Variation December to December						
Consumer price index ^a	27.2	20.7	16.2	20.0	29.8	28.7
Food	22.2	21.6	15.4	20.1	29.4	24.7
Wholesale price index ^b	45.9	18.1	15.8	19.9	26.4	27.2
Consumer goods	41.5	23.5	16.7	20.9	30.1	28.9
Food	36.3	25.4	17.6	20.6	32.7	27.9
Others	38.3	19.1	14.7	21.8	24.4	31.2
Producer goods	53.3	9.7	14.3	18.2	20.5	24.3
Variation between annual averages						
Consumer price index ^a	15.8	29.1	17.5	18.2	26.3	27.9
Food	12.7	28.6	16.5	18.4	25.0	26.2
Wholesale price index ^b	22.2	41.2	15.8	18.3	24.5	24.5
Consumer goods	22.2	41.8	17.4	19.9	26.9	27.3
Food	19.2	40.5	18.7	19.9	28.2	28.1
Others	30.6	45.0	14.2	19.9	23.7	25.4
Producer goods	22.3	40.1	13.0	15.5	20.7	19.8

Source: ECLA, on the basis of official data.

^aNational.

^bIn Mexico City.

Table 16
MEXICO: EVOLUTION OF WAGES AND SALARIES

	Annual averages					Growth rates				
	1977	1978	1979	1980	1981 ^a	1977	1978	1979	1980	1981 ^a
Minimum wages and salaries (1976 = 100)										
Annual averages										
Nominal	127.9	145.1	169.5	199.5	261.2	27.9	13.5	16.8	17.8	30.9
Real	99.0	95.7	94.4	88.1	90.2	-1.0	-3.4	-1.3	-6.7	2.4

Source: ECLA, on the basis of official data.

^aPreliminary figures.

Table 17

MEXICO: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1978				1979				1980				1981 ^a			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Rates of open unemployment																
Main cities (metropolitan areas)																
Mexico City	7.4	6.8	7.0	6.4	6.1	5.1	6.0	5.5	4.3	5.1	6.0	3.5	4.2	4.5	4.9	...
Guadalajara	6.6	6.0	5.7	5.8	6.2	5.4	6.5	4.8	4.0	5.4	6.5	6.2	6.2	4.0	5.9	...
Monterrey	8.5	7.5	8.1	6.2	5.7	5.6	6.6	5.5	6.0	5.6	6.6	3.4	4.5	5.8	6.3	...
Average, metro- politan area	7.4	6.8	6.9	6.3	6.1	5.2	6.1	5.4	4.4	5.2	6.2	3.8	4.5	4.6	5.2	...
Annual averages, metropolitan areas			6.9				5.7				4.9				4.8 ^b	
Indexes (1976 = 100)																
Employment			113.4				134.9				143.4				151.1	

Source: ECLA, on the basis of data supplied by the Ministry of Programming and the Budget.

^a Preliminary figures.

^b Estimates.

The construction industry continued to act as a great generator of employment. Of the million new jobs created in 1981 it is estimated that construction absorbed nearly 20%, agriculture 24% and services almost one-third. In the manufacturing sector employment grew by 5.4% in 1981 (representing about 130 000 new jobs), with some differences between the various branches of industry, reflecting the situations arising in their production activities or the effects of the modernization processes implemented. Thus, in the food, beverages and tobacco industries, which provide over a quarter of industrial jobs, employment rose by 6%, and in steelmaking the growth was even faster, the most dynamic subsectors being those producing motor vehicles, motor-vehicle bodies and railway equipment, where employment rose by between 15% and 25%.

In the year under review regional and State employment programmes were formulated, supported by transfers of resources from the Federal Government to the employment services of federal units. Steps were also taken to raise productivity jointly with training programmes, partly because of the need to avoid any great disparity in the income of wage-earners caused by the tendency of the wages of unskilled personnel to lag behind. Thus, the National Productivity Programme, aimed at the training of over 50% of the workers, came into effect during the year.

5. Monetary and fiscal policy

(a) Monetary policy

The basic objectives of monetary and credit policy in 1981 continued to be to encourage the formation and procurement of liquid resources and savings and to ensure a sufficient amount of credit with the aim of promoting the basic activities for future development, especially the production of essential consumer goods. In this respect, notable aspects of the implementation of credit policy in 1981 were the achievements in adapting the financial apparatus (mainly of the national banks and State trust funds) to the needs of public sector bodies and programmes responsible for promoting the production of foodstuffs and other essential products.

Nevertheless, the banking system's promotion capacity was limited by the increases in financial costs deriving from two principal factors. The first was the continuation of the rising trend in the rate of interest on sight or very short-term financial instruments in the international markets and the sharp fluctuation of those rates: a phenomenon from which Mexico cannot

divorce itself because of the free movement of capital it has traditionally enjoyed. The second factor which made credit more expensive was the bigger increase in the cost of procurement of bank resources in national currency than in foreign currency, a rise designed to attract capital to the financial system and encourage its holding in Mexican pesos. This gap widened still further as from October 1980, when the monetary authorities began to put into practice a faster rate of depreciation of the peso in relation to the dollar under the system of controlled floating in force since 1976. The value of United States currency thus increased by about 11% in 1981 —with a progressive acceleration of the trend throughout the year— leading to a corresponding adjustment of the passive interest rates in the national banking system.

Accordingly, it is estimated that the average cost of procurement of bank resources in national currency (taking into account the different instruments used by the system) increased by about 30% in 1981. As a result, the active rates rose steadily throughout the year. This increasing cost hindered the use of credit by the private sector, especially from July onwards when the real passive rate became positive. A considerable change thus took place with respect to the typical situation prevailing in 1979 and especially in 1980, both years having been characterized by the persistence of real negative rates for savers.

The other priority objective —promotion of economic activity by selective support— was pursued by means of the diversification of credit mechanisms at preferential rates through the increased supply of credit by development bodies which lend money at less than the current market rate. From another standpoint, the monetary authorities formulated a policy that would not help to encourage inflationary pressures through excessive monetary expansion: an objective which it

Table 18

MEXICO: MONETARY BALANCE

	End-year balances (billions of pesos)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Money	260	346	462	613	33.1	33.5	32.7
Currency outside banks	115	150	195	282	30.4	30.0	44.6
Demand deposits	145	196	267	331	35.2	36.2	24.6
Factors of expansion	1 148	1 513	2 049	3 123	31.8	35.4	52.4
Net international reserves	52	70	92	131	34.6	31.4	42.4
Domestic credit	1 096	1 443	1 957	2 992	31.7	35.6	52.9
Government ^b	418	552	722	1 244	32.1	30.8	72.3
Official entities	233	277	369	550	18.9	33.2	49.1
Private sector	445	614	866	1 198	38.0	41.0	38.3
Factors of absorption	888	1 167	1 587	2 510	31.4	36.0	58.2
National currency	472	628	907	1 383	33.3	44.4	52.5
Quasi-money ^c	116	165	235	312	42.2	42.4	32.8
Time instruments ^d	237	297	422	684	25.3	42.1	62.1
Miscellaneous liabilities	119	166	250	387	39.5	50.6	54.8
Foreign currency	461	591	762	1 275	28.2	28.9	67.3
Quasi-money ^c	26	38	57	88	46.2	50.0	54.4
Time instruments ^d	61	102	137	268	67.2	34.3	95.6
Long-term external liabilities	316	380	484	822	20.3	27.4	69.8
Other liabilities	58	71	84	97	22.4	18.3	15.5
Other items (net)	-45	-52	-82	-148	17.8	57.7	80.5

Source: ECLA, on the basis of figures supplied by the Banco de México, S.A.

^aPreliminary figures.

^bIncluding the Federal Government, state and municipal governments and the Department of the Federal District.

^cComprising instruments with a term of less than three months.

^dComprising instruments with a term of three months or more.

^eComprising instruments with a term of less than three months, plus checking accounts in foreign currency.

was sought to achieve by establishing relatively high rates of legal reserves and extending the maturity of the special deposits agreed on between the Banco de México and private banks. In fact, the money in circulation grew by 33% during the year, which was less than the 39% increase in the gross domestic product at current prices.

The factors of expansion did not register a similar performance, however. On the one hand, the international reserves continued to rise (by 42%), owing partly to the heavy procurement of external loans. On the other hand, total bank credit grew by 53%, the biggest increments being in financing granted to the Federal Government (72%) and public institutions (49%), with a smaller increase in that granted to the private sector (38%) (see table 18).

On analysing the percentage structure of the procurement of resources by private and mixed banks, a notable feature is that together with the smaller share of liquid liabilities (precisely a consequence of the high rates of interest and of alternative investment possibilities with a high degree of liquidity) there was an increase in the share of long-term liabilities (one year or more), jointly with a rise in "dollarization" (coefficient of procurement of resources in foreign currency *vis-à-vis* total procurement). Thus in the course of 1981 the public's preference inclined towards medium- and long-term instruments, and progressively towards those in foreign rather than national currency.²¹ This situation was to a great extent due to the higher rates of interest offered by the Mexican banks on instruments in dollars rather than in other foreign currencies and the expectations of a sharper devaluation.

It was probably for these same reasons that in the course of the year the private sector followed a trend towards the advance liquidation of debts with other countries, using funds obtained from the domestic banking system. This substitution of liabilities influenced in some degree the considerable dynamism of demand for domestic credit during the year and apparently stimulated the increasing recourse to external credit by the public sector in order to increase the supply of foreign currency in the foreign exchange market.

This impetus, however, was not so great as to alter significantly the salient characteristics of credit support in terms of amounts and orientation. Thus, a notable feature was the preferential attention given to agriculture producing for the domestic market, and to low-cost housing. Specifically, the credit channelled to SAM increased by nearly 160% and the support given to basic commodities rose by approximately 120%.²² From a different angle, the priority attention to basic items of production was evident too in the rapid growth of State bank credit to the private and social sectors, which exceeded that of private banks. In view of the fact that a large proportion of State bank credit is granted at preferential interest rates, this expansion lessened for the economy as a whole the inflationary effects which might have derived from a sharp rise in interest rates on the market.

Monetary and credit policy also developed within the context of a growing diversification and specialization of procurement instruments and of the banking system's actual operations. In this respect, mention may be made of various institutional adjustments which have intensified the integration of different types of bank activities in a single unit (the so-called "multibank" system).²³ Similarly, efforts were made to modernize the legislation governing financial institutions and to increase the role played by the stock market, for which purpose steps have been taken to issue Stock Exchange Promotion Certificates which can be placed in enterprises

²¹The level of 'dollarization' reached 16.4% at the end of 1980 and 23% a year later. It was stable in the first four months of 1981, then increased steadily, except for a sharp rise in July when procurement (marginal) of resources in foreign currency amounted to three-quarters of the total.

²²To ensure the best possible implementation of the policy of selective support for basic products, in 1981 a special trust fund was set up, using resources from the Federal Budget, to supplement other credit measures and programmes within the same context.

²³Furthermore, in order to improve the structure of the State banking system, Nacional Financiera S.A. and the Banco Internacional were merged; Somex was merged with the Banco Mexicano, and authorization was given for the Banobras Group to operate as a multibank. The banking and finance authorities also propose to merge the Banco Nacional de Comercio Exterior with the Banco del Pequeño Comercio, to establish a Banco de Turismo and to authorize the Banco Nacional de Crédito Rural to operate as a multibank.

incorporated in savings and pension funds. The promotion of saving by manual and non-manual workers is part of the idea behind this proposal. As regards the improvement of procurement instruments and the provision of additional guarantees that will result in the expansion of the financial market, mention should be made of the proposal to establish a system of protection for deposits in banking institutions, which would be implemented mainly through a joint fund set up by the banks.²⁴

Finally, some changes were observed with respect to the previous year in relation to the sectoral allocation of credit. There were notable increases in the credit assigned to mining (especially in the private sector); to the metal products and machinery industry (especially public and private steelmaking enterprises and the production of capital goods); and to the construction of low-cost housing (see table 19).

(b) *Fiscal policy*

As noted earlier, the general economic process was affected by the pressures deriving from the outflow of funds because of the high rates of interest paid abroad and fears of a devaluation, and from the sluggishness of the prices of certain export items. In this context, fiscal policy continued to be characterized by high public expenditure designed to strengthen the economic structure, compensate for declines in the growth rates of some sectors, increase the supply of foodstuffs and other basic products and intensify redistributive measures through the provision of subsidized goods and services. At the level of State institutions subject to budget control, the expansion of total expenditure was once again very high —53% in 1981 compared with 50% in the previous year— and outlays of the central government almost doubled (see table 20). Servicing of the public debt played an important part in this increase, but even so operating expenditure grew by 50% and investment by 95%.

In contrast, the procurement of resources developed at a much slower pace, since the tax burden remained constant, and revenue growth rates were lower than in previous years. This phenomenon was due, *inter alia*, to the fact that significant tax relief was approved in addition to

Table 19
MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES
AND INDIVIDUALS^a

	End-year balances (billions of pesos)				Growth rates		
	1978	1979	1980	1981 ^b	1979	1980	1981 ^b
Total	572	843	1 161	1 666	47.4	37.7	43.5
Primary activities	92	121	177	242	31.5	46.3	36.7
Agriculture	85	111	163	218	30.6	46.8	33.7
Mining and others	7	10	14	24	42.9	40.0	71.4
Industry	255	336	455	669	31.8	35.4	47.0
Energy	37	71	116	179	91.9	63.4	54.3
Manufacturing	169	208	270	386	23.1	29.8	43.0
Construction	49	57	69	104	16.3	21.1	50.7
Low-cost housing	26	30	34	49	15.4	13.3	44.1
Services and other activities	104	216	287	392	107.7	32.9	36.6
Commerce	95	140	208	314	47.4	48.6	51.0

Source: ECLA, on the basis of official data from the Banco de México, S.A.

^aIncluding public and private enterprises.

^bPreliminary figures.

²⁴See, *inter alia*, "Iniciativa de Ley de Ingresos de la Federación 1982", *El Mercado de Valores*, Vol. XII, No. 48, 30 November 1981. This article contains the analysis of the recent evolution of the Mexican economy made by the Minister of Finance in the Chamber of Deputies on 25 November 1981.

Table 20

MEXICO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of pesos				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
1. Current income	302	412	680	938	36.4	65.2	38.0
Tax revenue	289	395	651	890	37.0	65.1	36.6
Direct	134	173	247	329	29.6	42.5	33.3
Indirect	120	158	220	295	31.5	39.9	33.8
On foreign trade	35	64	184	266	84.0	188.1	44.3
Non-tax revenue	13	17	29	48	24.7	68.8	69.9
2. Current expenditure	286	382	579	884	33.6	51.6	52.8
Wages and salaries	93	120	159	223	28.7	32.6	40.9
Other current expenditure	193	262	420	661	36.0	60.3	57.3
3. Saving on current account (1 - 2)	16	30	101	54	86.7	239.5	-46.8
4. Capital expenditure	190	351	482	1 216	84.6	37.2	152.4
Real investment	57	86	169	329	50.5	95.8	94.5
Debt amortization payments	108	232	258	791	115.4	11.2	206.4
CETES	59	177	199	418	202.4	12.8	109.6
Others	49	55	59	373	12.3	6.1	534.9
Other capital expenditure	25	33	55	96	30.1	67.3	76.1
5. Total expenditure (2 + 4)	476	733	1 061	2 100	54.0	44.7	98.1
6. Fiscal deficit (1 - 5)	174	321	381	1 162	84.4	18.5	205.4
7. Financing of deficit							
Domestic financing	148	296	332	1 091	99.4	12.0	228.9
CETES	61	183	187	415	199.9	2.6	121.7
Others	87	113	145	676	29.6	27.1	368.0
External financing	26	25	49	71	-4.8	95.1	45.9

Source: ECLA, on the basis of figures supplied by the Ministry of Finance and Public Credit.

^aPreliminary figures.

the reductions granted in 1980 in order to support investment and employment, and also to the aforementioned measures designed to protect the disposable income and purchasing power of wage-earners and, in general, of the lower-income groups. Within this context, mention should be made of the reduction in taxes on income from work and the increase in the profits tax, and also of the tax relief and tax incentives given in respect of the basic commodities programme, the exemption from income tax for the lowest-paid strata and the establishment of a system for refunding taxes on inputs used in the manufacture of those foodstuffs which are exempt from sales tax ("zero rate" system).

Despite the tax relief decreed at the beginning of the year in relation to foodstuffs, however, revenue from the value added tax rose considerably thanks to the administrative reforms introduced and the greater experience gained in handling it. Returns from taxes on exports of hydrocarbons, however, showed an appreciable reduction in their growth rate. Altogether, central government current income grew by 38% compared with 65% in 1980 (see table 20).

The large volume of expenditure, pushed up also by the improved wages of public employees, combined with the tax relief decreed in order to stimulate the reactivation of the economy or to support social objectives, plus the loss of dynamism in the tax yield from petroleum sales, led to a considerable increase in the deficit of State institutions. The disequilibrium in the public sector accounts was two-and-a-half times that of 1980 and rose to the equivalent of 27% of total expenditure, compared with approximately 16% in 1979 and 1980.²⁵ In the central government sphere the budget deficit tripled, equalling 55% of expenditure compared with 36% in 1980.

²⁵Banco de México, *Informe Anual 1981*, Sixty-Fourth Ordinary General Meeting of Shareholders.

Although these maladjustments are basically explained by the pursuit of the important economic and social development objectives mentioned earlier, they also reflect some weaknesses as in the public finances. Fiscal disequilibria, supported to a greater extent than on other occasions by domestic bank credit, tended to accentuate the external sector deficit, and this led to the mutual reinforcement in the short term of the fiscal and payments imbalances, the most notable consequences of which were the rapid increase in the public sector's external indebtedness, the increase in the corresponding financial service costs, and the lesser dynamism of the tax sources associated with sectors of activity which since 1980 had been more and more exposed to competition from imports.

Approximately in the middle of the year an attempt was made to check the effects of this situation on the fiscal accounts through a measure which provided for a selective reduction of 4% in the expenditure approved and the re-establishment of prior permits for a significant group of imports of goods. Difficulties seem to have been experienced in the implementation of this fiscal measure, however, since it did not manage to restrain the increase in total expenditure for the year, which, as noted earlier, grew twice as fast as in 1980.

In order to strengthen fiscal revenue, increases in the domestic prices of gasoline were also decreed. Thus, at the end of December 1981 it was decided to raise the price of regular gasoline from 2.80 to 6 pesos per litre, that of high-octane gasoline from 4.20 to 10 pesos, and that of diesel fuel from 1 to 2.50 pesos.

Finally, in 1981 action was taken to issue Fiscal Promotion Certificates in respect of agricultural investment and the CEDIS for the promotion of exports were increased, although as yet with little result. At the same time, a large-scale programme of financial support for basic products was prepared, with the participation of State, private and mixed banks, and further income tax relief measures were proposed in order to reduce the burden on taxpayers with incomes between one and three times the minimum wage. All this was additional to the efforts being made to strengthen the economies of the State and local governments and to bring about greater regional equilibrium between federal bodies with a view to using this as an instrument for the decentralization of economic activities.

NICARAGUA

1. Recent economic trends: Introduction and summary

In 1981 the Nicaraguan economy turned in results which may be considered as relatively favourable in view of the domestic situation and the world economic conditions prevailing at the time. Thus, the gross domestic product increased by 8.9%, continuing the trend of the previous year, when it rose 10% after the sharp contraction of 33% suffered during the two-year period 1978-1979 (see table 1 and figure 1).

As in 1980, this growth was based, on the expenditure side, on a marked increase in gross domestic investment in both construction and in machinery and equipment, as well as on the partial recovery of exports. From the sectoral angle, it was the agricultural sector which was the main basis for this overall performance. The results obtained in agriculture, however, primarily represented a recovery from the losses suffered in the previous two years, and were due almost entirely to the efforts made through agricultural policy —the supply of inputs and technical assistance— and the endeavour made to reorganize production units through associations and co-operatives.

At all events, the 1981 results must be considered within a larger time horizon, for the rate and nature of Nicaragua's economic evolution in 1981 were determined both by the prevailing conditions themselves and by the consequences of the structural changes initiated after the civil war which ended in July 1979 with the establishment of the present government.

Moreover, the economic results must be appraised within a context which is qualitatively different from that of the past, in view of the economic policy objectives of the new authorities. Consequently, it is necessary to bear in mind, on the one hand, that the indicators on average per capita relationships are now more representative than in the past and, on the other hand, that more resources have been devoted to the improvement of social conditions, especially in the fields of health and education, and the fruits of these will be borne in the medium and long term.

When the new government took over the running of the country, the national economy was sunk in a profound depression. Almost all activities were paralyzed, and severe decapitalization had taken place, both in directly productive activities (through the destruction of installations or the removal of capital goods to the exterior during the war) and as regards the economic infrastructure. Moreover, the monetary reserves had been exhausted, while in addition there were heavy financial commitments with the exterior deriving from a large external debt, part of which had been contracted on very burdensome conditions, both as regards maturity and interest rates.¹

In view of this situation, the first efforts of the new government were aimed at satisfying the most urgent needs of the population with the aid of the international community, and a series of measures in line with the general objectives set forth were taken, giving rise to profound changes in a number of the structures which had previously characterized the economic system of Nicaragua.²

¹See CEPAL, *Nicaragua: Repercusiones económicas de los acontecimientos políticos recientes* (E/CEPAL/G.1091), August 1979.

²See the section on Nicaragua in *Economic Survey of Latin America, 1980*.

Against the background of these restricting factors and imbalances inherited from the past,³ in 1980 the Government formulated a plan of work in which it was proposed to overcome the economic emergency through the operational restructuring of the State and the reconciliation of the interests of the workers, the Government and private enterprise in a mixed economy system.⁴ Various adverse conjunctural economic factors at the international and Central American levels, together with some internal obstacles (especially the reluctance of a part of the private sector to accept the new economic policy lines), prevented the achievement of complete success through this plan, although important advances were made which represented the beginning of the recovery of the economy.

Against this background, the Government put into practice an economic programme for 1981 whose main objectives were: (a) to raise the standard of living of the population within the framework of the process of economic reactivation; (b) to advance along the road towards economic independence, and (c) to organize and consolidate the set of enterprises taken over by the Government which make up the Area of Public Ownership, while at the same time raising their efficiency and productivity, in order to restructure and reorient the national economy.⁵

In order to achieve these objectives, economic activities were defined within a context of austerity and efficiency whose general consequences were designed to be the reduction of non-essential consumption, a substantial increase in fixed capital investment, the rebuilding of stocks, improvement of the State finances, and reduction of the external sector deficit.

However, growing difficulties deriving from the domestic economic situation as well as the international crisis, together with increasing obstacles and tensions whose presence and importance cannot be ignored when analysing the economic performance in 1981, gradually caused the short-term economic policy objectives to be modified. Thus, part of the policies envisaged in the Economic Programme of Austerity and Efficiency designed at the beginning of the year had to be reoriented as various adverse events, some of them of a non-economic nature, took place. Furthermore, in seeking to increase production account also had to be taken of the measures needed to strengthen the national defence system, which called for heavy expenditure and organizational efforts, to the detriment of other objectives of the programme. For this reason, certain production policies were reoriented: for example, towards the end of the year the measures designed to support the development of the northern Atlantic area of the country were intensified. Nevertheless, almost all the variables reflected some progress—even though to a lesser extent than planned—towards the established objectives, the most outstanding exceptions being the further increase in the current account deficit of the balance of payments, which reached a record level of US\$ 570 million, and the aggravation of the fiscal imbalance (see table 1 and figure 1).

The overall results registered in 1981 were achieved in spite of a number of adverse factors which had been gathering since the previous year. Firstly, the external sector continued to give negative indications. On the one hand, the instability of the international prices of the main commodities, together with a further increase in the unit price of imports, led to a deterioration in the terms of trade and largely neutralized the efforts made to improve the country's external position. On the other hand, although a positive balance continued to be maintained in capital inflows and the renegotiation of the external public debt was completed on very favourable conditions as regards maturity and cost, the shortage of foreign exchange became one of the most serious limitations on the functioning of economic activities.

³ Among these negative factors, mention may be made of the severe disruption of the productive system; the decapitalization and deterioration of production equipment; the inadequate supply of essential products (food, consumer goods in general, medicines, spare parts and other inputs); unsatisfactory agricultural results because sowing had not been carried out on account of the war; intense inflation; an excessive fiscal deficit; high internal indebtedness, together with a firm tendency towards the flight of foreign exchange and a poor outlook for external sales; high rates of unemployment and underemployment, and lack of sufficient qualified human resources. See in this respect CEPAL, *Economic Survey of Latin America*, 1979.

⁴ See Ministry of Planning of Nicaragua, *Programa de Emergencia y Reactivación en Beneficio del Pueblo*, January 1980.

⁵ See Ministry of Planning of Nicaragua, *Programa Económico de Austeridad y Eficiencia*, 1981, January 1981.

Table 1

NICARAGUA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of 1970 dollars)	1 111	1 168	1 241	1 152	858	944	1 028
Population (millions of inhabitants)	2.32	2.40	2.48	2.56	2.64	2.73	2.82
Per capita gross domestic product (1970 dollars)	480	487	501	450	325	345	364
Growth rates							
B. Short-run economic indicators							
Gross domestic product	2.2	5.0	6.3	-7.1	-25.5	10.0	8.9
Per capita gross domestic product	-1.1	1.6	2.8	-10.2	-27.9	6.4	5.4
Gross income ^b	-2.3	9.4	10.1	-10.3	-26.0	9.4	7.8
Terms of trade	-16.3	17.7	27.4	-11.3	-11.9	0.9	-9.7
Current value of exports of goods and services	2.3	37.6	17.0	0.1	-6.6	-24.7	8.4
Current value of imports of goods and services	-8.7	0.5	41.3	-21.5	-22.3	75.8	11.5
Consumer prices							
December - December	1.9	6.3	10.2	4.3	70.3	24.8	23.2
Variation between annual averages	1.8	2.8	11.4	4.6	48.1	35.3	23.9
Money	-3.5	25.4	6.2	5.7	85.8	26.3	28.2
Wages and salaries ^c	5.8	5.0	9.6	-1.6	28.0	-10.4	19.4
Rate of unemployment ^d	9.6	8.7	13.1	14.5	22.9	17.8	13.4
Current income of government	-3.1	15.4	17.6	-9.7	16.7	139.2	21.6
Total expenditure of government	3.9	4.3	41.2	6.8	-9.3	113.4	32.2
Fiscal deficit/total expenditure of government ^d	37.2	29.9	41.7	50.7	36.6	28.9	34.5
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-148	18	-125	59	160	-423	-479
Balance on current account	-198	-48	-192	-34	90	-511	-571
Variation in net international reserves	37	-1	9	-83	9	-107	115
External debt ^e	644	681	874	961	1 131	1 571	2 141

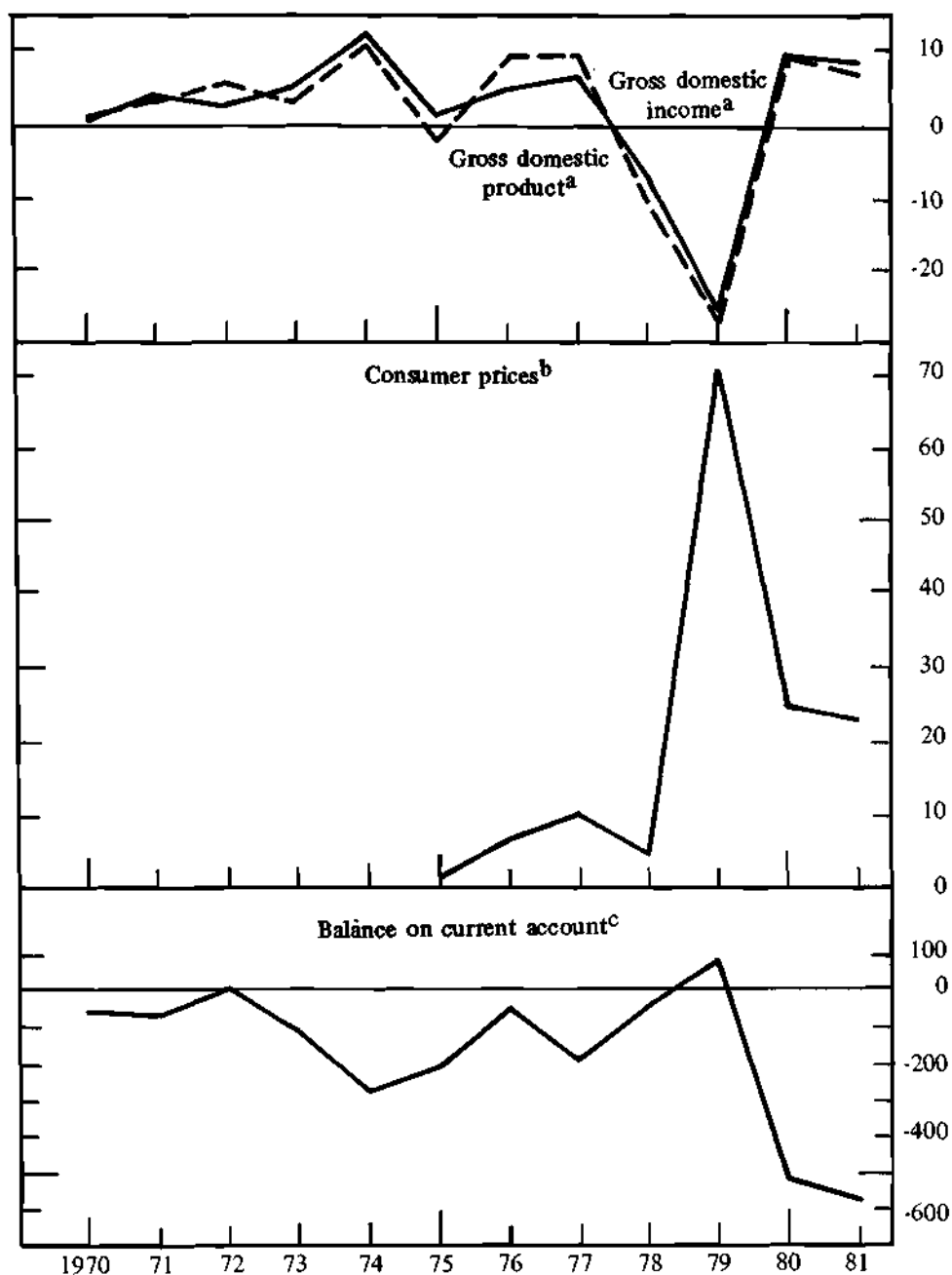
Source: ECLA, on the basis of official data.

^aPreliminary figures.^bGross domestic product plus terms-of-trade effect.^cNominal wages and salaries of members of the Nicaraguan Social Security Institute.^dPercentages.^ePublic and State-guaranteed external debt contracted.

Moreover, despite the efforts made it was not possible in 1981 to overcome the tensions existing between the Government and part of the business sector, which were reflected *inter alia*, as in the previous year, in the marked reluctance of these business groups to play an active part within the context of the new economic policy lines. Nevertheless, towards the end of the year some encouraging changes began to be observed, especially in the sectors producing items of basic consumption.

Furthermore, the generalized economic crisis of the Central American countries also had negative effects on the Nicaraguan economy. Because of the interdependence achieved by the economies of the area, which had been reflected in the past in the growth of trade, the depressive tendencies likewise mutually reinforced each other and were interiorized into the national economies. The consequences of this crisis were, on the one hand, a reduction in the possibilities for exports because of the decline in demand in the rest of the region and, on the other hand,

Figure 1
NICARAGUA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation, December - December.

^cMillions of dollars.

difficulties in acquiring Central American products —most of them industrial products having links with the mass consumption "shopping basket"— because the lack of international liquidity of the countries of the area meant the exhaustion of the financing which had been available the previous year.

At the domestic economic level, in spite of the objectives announced by the Government and implicit in the economic policy measures, imbalances and tensions among the most important economic and financial variables continued, and inflationary pressures, although more moderate than in the previous two years, continued to introduce some distortions into the price system and to reduce the real value of wages.

In addition, the shortage of foreign exchange made it necessary to establish a strict set of priorities for its allocation, and this encouraged the formation of an illegal parallel market with an exchange rate far above the official one, thus introducing additional distortions into the general system of prices and making the handling of the financial area even more difficult.

Although various measures were taken to improve the efficiency of public administration and the management of the Area of Public Ownership, and although substantial improvements were indeed achieved in some activities, important deficiencies persisted and limited the achievement of certain objectives. In public administration, there was some under-implementation of the budget, primarily in the area of investments which already had external financing, and this delayed the progress of a number of projects. In the production area, as well as the scarcity of foreign exchange for the importation of inputs, the shortage of management professionals and middle-level staff was another element which prevented a greater degree of recovery, especially in the industrial sector.

Finally, among the internal obstacles to growth, mention must be made of the difficulty in the short-term in reconciling the production structure with the new social and economic priorities. Thus, as well as trying to overcome the reluctance of the private business sector to make investments, so as to recover the previous levels of working capital and production, it will also be necessary to make significant adjustments in some sectors —manufacturing and private construction, for example— in line with the demand patterns connected with the new economic policy lines aimed at satisfying the basic needs of broader groups.

In the face of this mass of obstacles, economic policy was aimed at compensating for the adverse effects of the current situation and proceeding with the implementation of the changes already begun the year before. Some contradictory results were registered, however, in this endeavour.

Because of the sluggishness of private investment and the urgent need to expand and reconstruct the infrastructure of the country, as well as to tackle the deficiencies in the field of social services, the public sector continued to play a stimulating role in total demand, and increased its expenditure to levels beyond its financial capacity. This considerably increased the fiscal deficit and exerted pressure on domestic credit, affecting the monetary variables in an expansionary manner. In order to protect the real income of wage-earners, however, the policy of applying price controls and production subsidies, as well as expanding the distribution network for an important group of mass consumption product, was intensified.

At the same time, the application of the agrarian reform process was pursued with some vigour and agricultural services and technical assistance continued to be supplied, while work proceeded on the organization of collective enterprises to ensure the supply of basic grains, all this against the background of favourable climatic conditions. It was also sought to improve the situation of smallholders by providing them with better production and financial resources.

To sum up, the overall results for 1981 were relatively encouraging in view of the set of internal and external depressive factors which had to be faced. It did not prove possible, however, to recover the levels already reached by the economy seven years before or to solve the mass of problems which had dragged on from the past, to which were added new obstacles to development arising in the course of the application of policies aimed at securing a transition to a different type of economic structure. In this respect, certain imbalances grew worse in 1981, especially in the financial area, and further limited the field of action of economic policy in the immediate future.

2. Trends in economic activity

(a) *Total supply and demand*

After the very sharp drops suffered during the most difficult period of the armed confrontation (1978 and 1979), total supply registered an appreciable recovery of close to 17% in 1980, followed in 1981 by a more moderate increase of 8% (see table 2). It thus returned to 95% of the maximum level reached before the conflict. Although this was partly due to the recovery of the product, the fundamental reason was the spectacular growth of imports, which gave rise to a sharp change in the composition of total supply. This significant fact, which had considerable repercussions on the balance of payments, was due firstly to the demands deriving from the most pressing needs of the population and the difficulties in reactivating production, both because of the seasonal nature of work in the agricultural sector and the state of disintegration in which the manufacturing sector had been left, while secondly the growth of imports was due to the need to replace stocks and begin the process of recapitalization of the economy through the importation of machinery and equipment.

After their marked drops in 1979, the components of total supply grew considerably in 1980, although none of them regained the absolute levels achieved before the conflict. In 1981, this same tendency continued, at rates more in keeping with the economic capacity of the country and with greater emphasis on capital accumulation.

Thus, fixed investment rose by 69% after having almost trebled in 1980. It consequently reached an absolute level close to that of 1977, while as a share of the product it rose from 21% in that year to close to 23% in 1981. This was partly the direct consequence of the efforts which the public sector had been making to reconstruct and expand the economic and social infrastructure, while to an even greater extent it was due to the installation and renewal of machinery and equipment in the Area of Public Ownership.

Table 2

NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	1 070	1 248	1 348	126.4	131.1	-26.4	16.6	8.0
Gross domestic product at market prices	858	944	1 028	100.0	100.0	-25.5	10.0	8.9
Imports of goods and services ^b	212	304	320	26.4	31.1	-30.0	43.4	-5.1
Total demand	1 070	1 248	1 348	126.4	131.1	-26.4	16.6	8.0
Domestic demand	779	63	1 146	101.3	111.4	-30.2	36.5	7.8
Gross domestic investment	-100	244	319	18.3	31.0	...	...	30.9
Gross fixed investment	51	137	232	16.1	22.6	-66.2	170.5	68.7
Construction	17	36	49	6.5	4.8	-74.3	118.0	34.9
Machinery and equipment	34	101	183	9.6	17.8	-58.1	196.2	80.9
Changes in stocks	-151	107	87	2.2	8.4			-18.7
Total consumption	279	819	827	23.0	80.4	-12.3	-3.2	1.0
General government	182	236	286	9.4	27.8	7.1	29.4	21.2
Private	697	583	541	73.6	52.6	-16.2	-16.4	-7.2
Exports of goods and services ^b	291	185	202	25.1	19.7	-14.2	-36.3	9.3

Source: ECLA, on the basis of figures from the Central Bank and the Ministry of Planning of Nicaragua.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

The private business sector, for its part, in spite of all the efforts made and the definitions of an economic nature formulated by the Government, continued with the cautious attitude which it had assumed since the change in the political leadership of the country. This situation even gave rise to certain practices of decapitalization of enterprises, with consequent effects on the production system and the balance of payments, for movements of capital to the exterior persisted in 1981, although with a clear downward trend. It was precisely for this reason that the economic measures taken by the State included provisions for the possible confiscation of private businesses when there was clear evidence that such decapitalization was being carried out. Nevertheless, a certain degree of favourable reaction was noted from part of the private sector in response to the economic incentives granted and the support measures adopted by the Government.

In spite of the authorities' efforts to maintain an austerity budget, government consumption —the only variable which has shown an uninterrupted upward trend— once again showed excessive dynamism (21%). This increase, which was nevertheless moderate compared with the previous year, was associated with substantial expansion of the social services, especially health and education, and certain programmes connected with the production or distribution area, such as the marketing of a "basket" of basic consumer products through the establishment of People's Shops. The maintenance of a substantial defence force and the mass mobilization of the People's Militia also exerted pressure on the level of public spending.

The further drop in private consumption partly reflected the deterioration which had taken place in the real income of workers as a result of the faster rise of prices than of nominal wages. Because of this, private consumption —which had already gone down by 30% in the previous two years— fell by a further 7% in 1981 (see table 2). Through an intensive programme of direct supply of grains and other foodstuffs, however, basic consumption expanded by a further 5%, thus helping to keep up the average living conditions of an extensive sector of the population. In contrast, non-basic consumption —concentrated in the middle and upper levels of society and having a marked influence on imports— went down by 23% as a result of the limitations on the availability of foreign exchange for direct importation and for the purchase of inputs abroad.

Finally, thanks to the recovery of agriculture, the volume of exports registered a significant increase of 9% in spite of the discouraging prospects which the international prices of the main export products continued to show.

(b) *Evolution of the main sectors*

With the exception of manufacturing, all economic activities showed growth rates in line with the overall evolution of the economy, particularly noteworthy being the increase of 10% for the goods-producing sectors as a whole, which contrasts with their stagnation in the previous year and the drop of 23% suffered in 1979. Basic services, for their part, which had been almost back to normal since the previous year, began to resume the rate of evolution of the rest of the activities in 1981. Finally, the group made up of the remaining services grew slightly faster than the product, its behaviour being largely determined by the performance of government services (see table 3).

(i) *Agriculture.* One of the most important features of the economic results for 1981 was the partial recovery of agricultural production. This sector generates a little under 30% of the product, over 80% of external sales and approximately 40% of total employment, and its results ultimately have great influence on the behaviour of the remaining productive activities. Moreover, it was one of the sectors most seriously affected not only by the destructive consequences of the war, but also by the state of disorganization and disruption in which the production units were left.

In 1981, the agricultural product grew by 14% as a result of a number of measures adopted by the new administration when it took office and subsequently consolidated during this year. In this respect, mention may be made of the efforts as regards the provision of inputs, technical assistance, equipment and financing, the reorganization of the production units grouped together in the Area of Public Ownership, and the more recent establishment of co-operatives on estates confiscated because of their abandonment. In the crop-farming subsector, production of

exportable goods rose by 29% and that of products for domestic consumption by 18%. In contrast, livestock production went down for the third year running as a result of the drastic reduction in the herds.

Production of cotton, which is one of the most important activities in the agricultural export economy, more than doubled with respect to the very low level reached in 1980, which had been due to the irregularity of planting work during the war period in 1979 (see table 4). The level of production achieved in 1981, although below that reached on average in the years before 1979, represented an important recovery, above all when it is borne in mind that some problems of labour availability at harvest time persisted —although to a lesser extent than in 1980— and that part of the agricultural private sector still maintained a negative attitude. In spite of these obstacles, the Government adopted a set of measures to encourage production. Thus, it established a guaranteed price per quintal for the producer, which was raised in the course of the season in line with the evolution of costs and international prices; it eliminated the taxes on exports and financed the whole of the costs, and it guaranteed the foreign exchange needed to acquire inputs. Thanks to these incentives, the area under cultivation rose to 130 000 manzanas in the period 1980/1981 —four times more than the previous season— and the average yield per manzana increased by approximately 35%.⁶ Although a significant proportion of the production (18%) came from the enterprises in the Area of Public Ownership, the majority continued to be accounted for by the private sector, which received the incentives already mentioned and also benefited from the measures limiting the rent of land used to cultivate export products to 300 córdobas per manzana per year.

Table 3
NICARAGUA: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	786	864	942	100.0	100.0	-25.5	10.0	8.9
Goods	439	443	489	50.9	50.1	-23.1	0.8	10.4
Agriculture, hunting, forestry and fisheries	265	239	273	27.7	28.0	-14.9	-10.0	14.3
Mining and quarrying	1	2	2	0.6	0.2	-57.9	49.2	6.4
Manufacturing	164	183	188	19.2	19.3	-26.4	11.8	2.7
Construction	9	19	26	3.4	2.6	-74.2	117.3	34.8
Basic services	65	75	82	7.4	8.4	-16.5	16.3	8.7
Electricity, gas and water	23	25	29	1.6	3.0	-9.3	11.8	16.0
Transport, storage and communications	42	50	53	5.8	5.4	-19.9	18.5	5.2
Other services	312	370	404	41.7	41.5	-25.5	19.1	9.2
Retail and wholesale commerce, restaurants and hotels ^c	138	160	170	20.6	17.5	-33.4	16.3	6.2
Ownership of dwellings	38	38	40	6.8	4.1	-26.6	-	5.0
Community, social and personal services ^d	136	172	194	14.3	19.9	-14.7	27.2	12.9
Government services	100	129	149	7.3	15.3	-6.3	29.4	15.7

Source: ECLA, on the basis of figures supplied by the Central Bank and the Ministry of Planning of Nicaragua.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cIncludes financial institutions, insurance and real estate (except ownership of dwellings).

^dIncludes restaurants, hotels and business services.

⁶The figures for the area cultivated and the yields refer to the agricultural year, so that they do not coincide with the figures for production, which are calculated for the calendar year.

Table 4

NICARAGUA: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates ^b			
					1978	1979	1980	1981 ^a
Production of main crops^c								
Export crops (calendar year)								
Cotton	2 621	1 968	767	1 583	1.3	-25.0	-61.0	106.4
Coffee	1 254	1 367	1 239	1 301	2.6	9.1	-9.4	5.0
Sugar cane	56 396	54 451	49 228	55 678	2.8	-3.5	-9.6	13.1
Bananas	3 744	2 720	2 682	3 360	6.8	-28.0	-1.4	25.3
Sesame	126	182	206	157	25.1	44.4	13.5	-23.8
Havana tobacco	29	27	35	29	12.0	-6.2	28.3	-16.9
Crops for domestic consumption (calendar year)								
Maize	5 525	3 750	4 281	4 293	40.2	-32.1	14.2	0.3
Beans	1 206	862	846	1 200	34.8	-28.6	-1.9	41.9
Rice	1 238	937	1 218	1 664	24.5	-24.3	30.0	36.7
Sorghum	1 318	1 356	1 988	2 015	35.8	2.8	46.6	1.4
Blond tobacco	42	33	45	38	12.7	-21.1	35.2	-13.7
Indicators of stock-raising production								
Slaughtering								
Cattle ^d	482	448	372	272	23.7	-7.1	-16.8	-27.0
Pigs ^d	237	200	204	243	-15.3	-15.6	2.2	18.8
Poultry ^e	17 547	11 988	18 900	24 500	-2.1	-31.7	57.7	29.6
Changes in stocks								
Cattle ^d	13	...	...	...	...	...	...	7.9
Pigs ^d	48	48	40	45	...	-0.6	-16.2	11.9
Poultry ^e	180	150	200	250	...	-16.7	33.3	25.0
Other indicators								
Milk production ^f	119	99	92	95	0.6	-16.9	-7.6	3.2
Egg production ^g	37	25	29	32	7.1	-33.3	16.0	10.3

Source: ECLA, on the basis of data from the Ministry of Planning.

^aPreliminary figures.^bGrowth rates correspond to real, not rounded, figures.^cThousands of quintals.^dThousands of head.^eThousands of pounds.^fMillions of gallons.^gMillion dozen.

As already noted, cotton producers —like those of other traditional export products— continued to receive a minimum support price, determined on the basis of the cost structure, plus the difference between this price and the average international price, when the latter was higher. Although up to 1981 this policy did not cause any losses to the State marketing enterprise, the support price was a great incentive for the production sector (mostly private), which was thus not so directly exposed to the risks involved in the instability of international prices.

The performance of coffee production —another item of prime importance among the export crops— has been more regular, because this is a permanent crop. Nevertheless, because of the lack of attention in the first part of the 1979/1980 season and difficulties over both finance and the availability of the necessary labour for harvesting, the 1980 production dropped by over 9%. In 1981, an increase of 5% was achieved even though some problems persisted, particularly as regards the availability of labour. In view of the impossibility of mobilizing paid labour for the coffee harvest in line with traditional patterns, the Government promoted broad programmes for increasing the rate of participation of the peasantry and achieving the mobilization of new categories of temporary workers such as urban wage-earners, students, office workers, etc.

Moreover, the coffee producers were protected, like cotton growers, from the instability of international prices because the national marketing company guaranteed them a minimum support price. Furthermore, coffee growers also had the option of selling at any time at the prevailing price on the spot or futures market.

One of the adverse factors which coffee growers have had to face has been the rust disease, which broke out some four years ago and has tended to spread. Since a considerable part of the harvest comes from small producers, the State has assumed responsibility for financing a large proportion of the programmes to control this disease, the cost of which is very high. In this connection, it may be noted that production was kept relatively stable in spite of the fact that 10 000 hectares of plantations which were lost in 1979 as a result of the effects of this disease have still not recovered their production.

Sugar cane production rose by 13% and thus almost regained the 1978 level. As a result not only was it possible to satisfy domestic consumption, but sugar also became the third most important export product. This was aided by a broad support policy on the part of the Government, which took shape at the beginning of 1981 in the Sugar Production Development Programme. For this purpose the Government set up the Sugar Industry Investment Fund, which includes among its objectives the promotion of sugar cane cultivation and which is financed by a State contribution of 17 córdobas for every quintal of refined sugar destined for domestic consumption. The final objective of the Programme is to guarantee and stabilize the rate of investment in the sector.

Finally, production of bananas —another export crop— also made a notable recovery (25%) in the context of a new agreement reached between the foreign company involved and the Government.

As regards products for domestic consumption, great efforts have been made to promote the production of basic grains so as to ensure supplies for the population and thus moderate inflationary pressures. Satisfactory results were obtained for the second consecutive year, especially in the area of agrarian reform and the expansion of the agricultural frontier. In the case of maize, it was possible to maintain the level of the previous year, while actual availability for human consumption increased because of the steady expansion of the production of sorghum, which increasingly covers the demand for animal feed. Production of beans almost recovered its 1978 level, while that of rice grew rapidly for the second year running (see table 4).

Among the set of measures aimed at promoting the production of basic grains, special mention may be made of the broad financial support given by the National Development Bank to small individual producers and agricultural co-operatives and other associations producing these crops. Likewise, the National Food Programme (PAN) set minimum guaranteed prices for various crops which represented increases of 140 córdobas for beans and 45 córdobas for maize. This important stimulus could have had even more positive results if the excessive rain towards the middle of the year had not adversely affected the yields from the first harvest.

In contrast with crop-farming production, livestock raising continued to decline, mainly because of the drop in production of meat and beef products. Traditionally, this activity had had a fair amount of significance in the sector, its performance being dictated by external demand. As from 1979, some changes began to be observed in these trends, firstly because during the long period of conflict cattle were slaughtered indiscriminately for export (this was one of the forms which the flight of capital assumed) or for domestic consumption; secondly, because there was some degree of abandonment and disruption of productive activities, which also affected the livestock herds; and finally, because livestock on the hoof was continually moved to neighbouring countries, as another manifestation of the flight of capital. Thus, the stock of animals went down considerably, and this decline is bound to have adverse repercussions because of the long period needed to make good these losses. At all events, the protection policies applied point the way to some degree of recovery of the herds.

Poultry production, for its part, continued the notable recovery registered since 1980 as a result of a broad policy of support for small producers, the financing of new installations and, in

particular, the organization of big enterprises in the Area of Public Ownership, where there was also significant growth of pork production.

(ii) *Manufacturing.* Manufacturing is one of the sectors which has been most affected by the recent events and which faces most problems in its reactivation. Firstly, it was practically paralysed by the destruction of installations and equipment, the exhaustion of stocks, and the disruption of the financing-importation of inputs-production process-distribution-export chain. Secondly, the lack of trained personnel to take over specialized posts in production, administration and management has made it more difficult to reactivate the enterprises taken over by the State and grouped together in the Public Industrial Corporation (COIP). Thirdly, part of the private industrial sector, together with the commercial sector, has resisted following the new economic policy lines and this has been reflected in a passive attitude to both production and investment, while in some cases it has even taken the form of processes of decapitalization. Furthermore, the reactivation of the sector was made more difficult in 1981 by the shortage of foreign exchange for the purchase of inputs.

A certain proportion of the industrial sector depends fundamentally on imported inputs for its final production, which is aimed at a small market for goods which are in many cases of a non-essential nature. It is consequently very difficult to see how this sector could return to normal until it completes its process of readaptation to operating efficiently in a new market where the shortage of resources —especially foreign exchange— makes it necessary to establish strict priorities.

For the above reasons, *inter alia*, the industrial sector registered the lowest growth rate in the whole economy (2.7%), after the partial recovery achieved in the previous year (see table 5). Within the sector, however, some important changes were to be observed. On the one hand, the overall growth rate reflected a considerable increase (20%) in the volume of production of the industries managed by COIP, and although these form only a relatively small part of total activity (around 22%), they nevertheless managed to offset the drop of rather more than 2% in the production of the private sector. The most significant increases were registered in lines of production connected with the mass-consumption "shopping basket": textiles (38%), footwear and clothing and paper and paper products (10% in each case), and miscellaneous petroleum products (12%).

(iii) *Construction.* Continuing its trend of rapid recuperation, this activity registered the highest growth rate in the economy (35%). Even so, because of the enormous drop which took place in 1978 and 1979, its level was still 55% lower than in 1977, while the total area of new constructions in Managua was almost 75% below the figure for the latter year (see table 6).

Nevertheless, and in spite of the fact that construction generates a smaller proportion of the total product than any other sector except mining, its impact on both employment and on sectors such as transport, manufacturing and commerce was substantial.

The reactivation of construction has been basically due to the State, either directly, through public investment, or through a broad programme of support and financing for the construction of low-cost housing.

Public construction activity continued to be concentrated in the key sectors of the economic and social infrastructure. In the transport sector, the main highway to the Atlantic (Puerto Cabezas) was almost completed, and work was pursued on the construction of minor roads for bringing out agricultural production, especially in subsistence farming areas. Work also continued in the energy sector and the construction of hospitals and schools in the interior of the country, together with the reconstruction of the centre of Managua.

In order to meet the growing need for mass housing, the Ministry of Housing organized a programme of low-cost mass-produced dwellings in marginal areas of the city of Managua and in the interior of the country, with a long-term repayment programme which means that beneficiaries only have to make small payments. A broad programme on the basis of self-building activities was also organized under the Department of Municipal Affairs. This body provides basic inputs through the municipal authorities, which then organize the work in their respective population centres.

Table 5

NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	Millions of córdobas at 1958 prices				Growth rates ^b			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Value of total production	3 808	2 787	3 131	3 215	0.5	-26.8	12.3	2.7
Food	1 655	1 391	1 386	1 433	5.3	-16.0	-0.3	3.4
Beverages	291	233	344	334	2.0	-20.0	47.5	-2.9
Tobacco	104	81	120	116	3.0	-22.0	48.1	-3.5
Textiles	172	108	102	141	-3.2	-37.4	-4.9	37.6
Footwear and clothing	85	48	112	123	-13.1	-43.3	132.0	10.0
Wood and cork	99	58	61	64	-20.1	-41.0	3.9	4.7
Furniture and fittings	27	18	17	18	-2.2	-31.5	-9.3	5.4
Paper and paper products	94	56	47	51	10.4	-40.3	-17.1	9.9
Printing publishing and related industries	50	37	56	62	-17.4	-26.6	50.5	11.7
Leather and leather products	26	23	25	20	12.6	-10.0	7.3	-19.9
Rubber products	11	8	21	22	1.8	-25.2	149.4	5.8
Chemicals and chemical products	555	376	399	385	1.1	-32.3	6.4	-3.5
Petroleum products	137	97	140	157	-10.5	-29.4	45.1	12.2
Non-metallic minerals	148	65	109	102	-14.8	-56.3	67.6	-6.0
Metal products	171	84	118	115	2.6	-50.8	40.9	-2.9
Machinery in general, including electrical machinery	76	40	31	25	2.7	-47.6	-22.5	-19.8
Transport equipment	11	7	7	8	3.7	-40.5	7.6	12.7
Others	96	57	36	39	4.9	-40.1	-36.9	9.1
Other indicators								
Industrial consumption of electricity (millions of KWH)	307	229	236	285	-0.3	-25.4	3.1	20.8
Employment (thousands of workers)	31	26	27	33 ^c	-2.2	-13.7	1.9	23.4 ^c

Source: ECLA, on the basis of data supplied by the Ministry of Industry and Ministry of Planning of Nicaragua and the Nicaraguan Energy Institute.

^aPreliminary figures.

^bGrowth rates correspond to real, not rounded, figures.

^cAccording to figures of the Nicaraguan Social Security Institute.

Table 6

NICARAGUA: INDICATORS OF CONSTRUCTION ACTIVITY

	1977	1978	1979	1980	1981 ^a	Growth rates ^b			
						1978	1979	1980	1981 ^a
Area constructed^c (thousands of m ²)									
Total	217	90	17	20	55	-58.6	-81.0	14.6	179.1
Dwellings	135	59	9	17	45	-56.4	-85.5	95.3	173.5
Production of certain building materials									
Cement (thousands of bags)	4 954	3 790	2 030	3 664	4 026	-23.5	-46.4	80.6	9.9
Wash basins (thousands)	43	37	...	18	...	-13.9	...	...	...
Toilets (thousands)	143	92	...	56	...	-35.5	...	...	...
Tiles (millions)	25	23	12	18	9	-7.2	-47.7	44.5	-48.9

Source: ECLA, on the basis of data from the Ministries of Industry and Planning of Nicaragua.

^aPreliminary figures.

^bGrowth rates correspond to real, not rounded, figures.

^cRegister of authorizations in the city of Managua.

(iv) *Other sectors.* The remaining economic activities evolved rather more slowly than in the first year of the recovery process (1980), but on a smoother and more harmonious basis. Particularly worthy of note was the growth of the electricity sector (16%), which thus fully recovered the level reached before the conflict. A noteworthy performance was also turned in by public administration, which has had to meet the very large demands of the population in the areas of health and education and has also had to maintain a substantial defence force.

(c) *Employment and unemployment*

In proportion as productive activities have settled down, there has been a reduction in the severe unemployment, which reached its most critical level in 1979. Thus, the national unemployment rate has dropped from 23% in that year to 18% in 1980 and a little over 13% in 1981 (see table 7).

This result reflected a relatively low rate of open unemployment in urban areas (8%) and a higher one in the rural sector (20%), including underemployment. The reduction of the former was due to the reactivation of economic activities, in which the services and intermediation sector played an important part in absorbing labour, but the persistence of the latter was due largely to the structural characteristics of the agricultural export sector, which requires a large amount of labour at times of sowing and harvesting but does not use so much the rest of the time. At all events, it is only in the long term that it can be hoped to overcome such a high level of unemployment and underemployment.⁷

Finally, social security coverage evolved more rapidly than the growth of the economically active population and national employment, possibly indicating better organization of the labour sector,⁸ more rapid growth of the formal sector of the economy, or a combination of both factors representing, in any case, a substantial improvement in the well-being of this group.

Table 7

NICARAGUA: EMPLOYMENT AND UNEMPLOYMENT

	1978	1979	1980	1981 ^a
Rates of unemployment				
National	14.5 ^b	22.9	17.8	13.4
Agricultural activities ^c	...	24.8	26.4	20.5
Non-agricultural activities ^d	...	21.4	11.1	8.1
Managua	...	24.6 ^e	13.7 ^f	...
Indexes (1976 = 100)				
National economically active population	108.0	110.3	114.3	119.2
National employment	101.0	86.5	95.7	105.2
Employment among members of NSSI ^g	105.5	90.4	104.3	123.3

Source: ECLA, on the basis of Ministry of Planning, *Evolución del programa de empleo 1981*, February 1982.

^a Preliminary figures.

^b ECLA, Nicaragua: repercusiones económicas de los acontecimientos recientes (E/CEPAL/G.1091), August 1979; estimated based on the assumption that the 1976 figure for productivity per employed person remained constant.

^c Rate of under-utilization: includes both under-employment and open unemployment.

^d Open unemployment: does not include under-employment.

^e Regional Employment Programme for Latin America and the Caribbean (PREALC), *Empleo en Nicaragua: Situación actual y líneas de acción futura*, issued in November 1979 on the basis of a survey conducted in October 1979.

^f Based on the household surveys conducted by the Instituto nacional de Estadísticas y Censos de Nicaragua in August-September 1980.

^g Estimated on the basis of data supplied by the Nicaraguan Social Security Institute (NSSI).

⁷ According to PREALC estimates, the agricultural labour force amounted to 342 000 persons, while the level of employment came to around 290 000 full-time jobs, representing a degree of under-utilization of the labour force of 16%. This gives grounds for assuming that towards the end of 1981 the historic levels of rural employment were recovered. See PREALC, *Nicaragua, disponibilidad y utilización de la fuerza de trabajo agropecuario*, Panama City, 1981.

⁸ One of the ways in which the income of workers has increased has been the expansion of social benefits.

3. The external sector

The external sector was an important element which limited efforts to reactivate the economy in various aspects. Because of the decline in the prices of exports and the upward trend in the prices of imports, the terms of trade deteriorated for the fourth consecutive year, thus weakening the purchasing power of external sales and neutralizing the efforts made to improve the country's external position. Moreover, although an appreciable amount of capital entered the country and thus made it possible to increase the monetary reserves, the constant shortage of foreign exchange throughout the year prevented the normal functioning of productive activities which require imported inputs. Finally, the critical situation of the other Central American economies and the defensive measures which they took to reduce their imports made it difficult to sell Nicaraguan products in these markets.

(a) *The terms of trade*

As already noted, the terms of trade played a decisive role in the trade deficit and, consequently, in the lack of international liquidity which affected a large part of economic activity; thus, while the volume of exports increased by almost 15 %, their current value rose by only 11 % because of a drop of a little over 3 % in their unit value. In view of the financial difficulties faced by the country, the authorities took a number of measures to ration the sale of foreign exchange as a function of national priorities, so that the volume of imports only increased by 7 %, although their value rose by close to 12 % because of the increase of 4 % in their unit price (see table 8).

These opposing trends were responsible for almost the whole of the increase in the trade deficit compared with the previous year, and the deterioration in the terms of trade brought the growth rate of national income down to only 88 % of that registered by the product.

(b) *Merchandise trade*

The value of exports came to US\$ 500 million, representing an increase of 11 % over the low level registered in 1980. This result was influenced by the increase in external sales of cotton and the noteworthy expansion in exports of sugar, which rose from US\$ 20 million to US\$ 50 million. In contrast, as a result of the problems already referred to in connection with livestock production, the marked decline in meat exports continued, and there was also a downward trend in the case of the other products, mainly because of lower prices. The value of exports of coffee also went down

Table 8

NICARAGUA: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
Growth rates							
Exports of goods FOB							
Value	-1.6	44.5	17.4	1.5	-4.7	-26.8	10.9
Volume	6.0	14.6	-4.9	7.1	-11.9	-37.9	14.8
Unit value	-7.1	26.1	23.5	-5.2	8.2	17.9	-3.4
Imports of goods FOB							
Value	-11.0	0.6	45.2	-21.4	-29.7	106.5	11.7
Volume	-22.8	-2.6	36.7	-28.8	-38.7	65.3	7.4
Unit value	15.3	3.3	6.2	10.3	14.6	24.9	4.0
Terms of trade (goods) FOB/CIF	-19.2	21.9	16.2	-13.8	-5.6	-4.9	-7.3
Indexes (1970 = 100)							
Terms of trade (goods) FOB/CIF	79.4	96.8	112.5	97.0	91.6	87.1	80.8
Purchasing power of exports of goods	116.6	161.9	177.6	164.7	141.5	82.3	86.8
Purchasing power of exports of goods and services	116.6	154.2	168.4	154.0	129.7	77.6	79.9

Source: ECLA, on the basis of official data.

^aPreliminary figures.

Table 9
NICARAGUA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown ^b		Growth rates ^b			
	1978	1979	1980	1981 ^a	1970	1981 ^a	1978	1979	1980	1981 ^a
Total	646	567	451	500	100.0	100.0	1.4	-12.3	-20.7	10.9
Main traditional exports	450	436	340	389	64.6	77.8	2.0	-3.1	-21.8	14.4
Cotton	141	136	30	123	19.1	24.6	-6.4	-3.7	-77.7	307.3
Coffee	200	158	166	137	18.0	27.4	0.4	-20.6	4.5	-17.4
Sugar	20	20	20	50	5.5	10.0	-29.6	-0.3	4.6	145.4
Meat	68	94	58	23	14.9	4.6	81.7	38.1	-37.6	-60.4
Shrimp and lobster	15	22	27	18	3.4	3.6	-33.2	47.5	23.3	-26.5
Gold	6	6	33	24	2.3	4.8	62.3	-8.1	477.2	-27.7
Sesame	3	2	6	8	-	1.6	88.9	-5.9	96.9	27.0
Cottonseed cake and meal	13	12	-	6	1.4	1.2	18.3	-9.3	-	-
Main non-traditional exports	78	50	53	56	9.7	11.2	5.4	-35.9	6.0	5.7
Bananas	5	6	8	21	0.2	4.2	7.3	33.3	31.3	148.8
Chemicals	52	31	32	29	5.3	5.8	2.3	-39.8	3.8	-12.0
Textiles and related products	12	8	6	5	3.1	1.0	-3.8	-34.4	-22.7	-53.4
Silver	2	2	7	1	-	0.2	...	-34.8	353.3	-85.3
Milk products	7	3	-	...	1.1	...	-4.5	-56.4	-	...
Others	118	81	58	55	25.7	11.0	-2.5	-31.4	32.1	-5.2

Source: ECLA, on the basis of data from the Ministry of Planning of Nicaragua.

^aPreliminary figures.

^bThe percentage breakdown and growth rates correspond to real, not rounded, figures.

during the year, in spite of the fact that the volume exported increased by 13%, since this increase was more than offset by the sharp decline of 27% in the average price (see table 9).

Sales to the Central American Common Market, which in their most flourishing periods had represented 25% of total exports, came to US\$ 70 million, meaning that they were 4% below the already low level of 1980 and only accounted for 14% of total exports. Three elements were responsible for this behaviour. Firstly, there were the difficulties faced by the country in reactivating its production for export, much of which consisted of products of the metal manufactures and machinery, chemicals, and powdered milk industries, which were rapidly obtained from other sources by the buyer countries. Secondly, part of the production was diverted to satisfy national demand as first priority, as in the case of powdered milk. Finally, the exchange rate adjustments and defensive measures adopted by the neighbouring countries, together with a probable overvaluation of the córdoba, lowered the competitiveness of Nicaraguan products.

The value of imports came to US\$ 990 million, representing an increase of almost 12% after having more than doubled in 1980.

During 1981 there were some important changes in the trends shown by the components of external purchases. After their spectacular expansion by 165% in 1980, the value of imports of consumer goods went down by 11% as a result of the increase in domestic production of non-durable goods, especially basic grains. Even so, the absolute level of these imports continued to be far above the historical average, this being explained by the fact that the manufacturing sector has not yet fully recovered (see table 10).

The value of imported inputs rose by 6%, thus indicating that in 1981 stocks built up in the previous year were used, since in terms of volume the external supply of intermediate goods was less than the amount corresponding to the real growth of the economy as a whole. Imports of petroleum and fuels increased by 16% over the already high purchases of the previous year, this

being due almost exclusively to the increased volume, since the price remained stable. Imports of other inputs rose at nominal rates lower than those corresponding to the growth of the user sectors, particularly noteworthy being the decline in imports of agricultural inputs (11%) as a result of the accumulation of stocks in 1980, when the value of such imports trebled.

Finally, mention should be made of the sustained increase in imports of capital goods, in line with the recapitalization efforts made by the enterprises of the Area of Public Ownership, especially in the transport and manufacturing sectors.

(c) *The services trade and factor payments*

Continuing the trend of the last three years, the value of exports of services went down by 12%, while payments under this heading rose by 3%, so that the deficit on the services account increased by US\$ 11 million.

As regards income under this heading, the most noteworthy feature was the stagnation at a very low level of income from transport services. This occurred because such revenue practically disappeared when the ships were moved abroad at the end of the armed conflict. Moreover, the only national aviation company remained almost without capital, so that its international operations were reduced. In contrast, income in respect of travel gradually recovered to a point very close to the 1978 values.

On the expenditure side, services connected with merchandise trade expanded at a similar rate to that of trade, while outlays in respect of travel abroad continued to go down in response to the austerity policy and the limitations on the availability of foreign exchange already mentioned.

Finally, the net balance of foreign factor payments continued to show an upward trend which, together with the imbalance on the merchandise trade, helped to expand the deficit on current account. This was due entirely to the higher payments of interest—in spite of having renegotiated the external debt—since remittances of profits and dividends of foreign enterprises went down for the third consecutive year.

Table 10
NICARAGUA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown ^b		Growth rates ^b		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	594	360	887	990	100.0	100.0	-39.4	146.3	11.6
Consumer goods	148	97	258	229	29.2	24.3	-34.3	165.2	-11.0
Non-durable	98	78	215	182	19.0	18.6	-20.9	176.6	-15.3
Durable	50	19	43	47	10.2	5.7	-60.8	120.0	10.3
Intermediate goods	333	217	519	552	47.6	54.3	-34.8	139.7	6.2
Petroleum and fuels	89	76	174	202	5.7	19.7	-14.8	129.7	15.7
Other intermediate goods	37	16	61	55	...	5.9	-57.5	295.5	-10.9
For agriculture	181	110	248	254	...	24.5	-38.9	124.3	2.4
For industry	26	15	36	41	...	4.2	-41.9	138.7	14.8
For construction	26	15	36	41	...	4.2	-41.9	138.7	14.8
Capital goods	113	46	110	209	23.2	21.4	-59.8	137.7	90.8
For agriculture	13	4	24	30	1.8	3.3	-66.4	458.1	26.7
For industry	75	31	61	119	17.0	12.2	-58.2	93.9	95.6
For transport	25	11	25	60	4.4	5.9	-58.7	137.1	141.0

Source: ECLA, on the basis of data from the Ministry of Planning of Nicaragua.

^aPreliminary figures.

^bThe percentage breakdown and growth rates correspond to real, not rounded, figures.

(d) The current account position and its financing

The combination of the various trends on both the merchandise account and the services account, including a drop in transfer payments received, gave a record balance-of-payments current account deficit of rather more than US\$ 570 million (see table 11).

In order to face up to this imbalance, the Government had to mobilize approximately US\$ 680 million of external capital —likewise an unprecedented amount— which enabled it to increase the monetary reserves by US\$ 115 million. The most outstanding elements in this financing, because of their size, were the loans granted by international organizations (US\$ 120 million),⁹ the loan granted by the Libyan Government to the national financial system (US\$ 100 million), lines of credit with foreign official banks (US\$ 43 million), financing from OPEC (US\$ 10 million) and a loan from the Netherlands Government (US\$ 9 million).

Although almost all this capital (except for US\$ 39 million of the non-tied balance) was mobilized by the public sector, 85% of the total funds was allocated, through the national financial system, to quasi-autonomous bodies, State public service enterprises, and productive enterprises from both the private sector and the Area of Public Ownership.

(e) External indebtedness

The external sector imbalance made it necessary to procure and use a record amount of external financing. Official disbursement came to US\$ 480 million, this amount being obtained at maturities and interest rates which were reasonable when compared with the prevailing current rates on the international capital market. The public debt contracted by the previous government and payable in the short term was also successfully renegotiated.

Because of the interest of the authorities in keeping open their access to international financing as a resource for supplementing domestic efforts to recapitalize the productive sectors, it was announced from the end of 1979 that it was intended to pay off these liabilities. As the international reserves had been practically exhausted, however, it was decided to renegotiate and to try to consolidate the debt. The first negotiations were successfully concluded towards the end of 1980 and covered a total of US\$ 582 million. This represented some relief for the balance of payments, as approximately US\$ 85 million which should have been paid that year was spread instead over a period of 12 years, with 5 years' grace. At the beginning of 1981, the second stage of the renegotiation of the short-term external debt continued, and its successful completion represented, together with that of the first stage, the postponement of a total of US\$ 223 million of payments, which was reflected in an increase in the net reserves.

The new disbursements increased the total external debt by 36% from US\$ 1 570 to US\$ 2 140 million. The results of the renegotiation increased payments of principal from US\$ 22 million to US\$ 86 million, while the external debt servicing as a proportion of the value of exports rose from 13% to 37% over the last two years¹⁰ (see table 12).

To sum up, the amount of the external public debt has arrived at really alarming levels, and the burden of payments of interest and principal in respect of it weighs heavily on the country's payment capacity. Thus, in spite of the success of the renegotiations, in 1981 the external debt servicing represented a high percentage of exports and the total amount of the debt was equivalent to almost four times the value of external sales of goods and services and to 84% of the domestic product.

⁹This figure is made up of disbursements in respect of loans granted to the public sector by the World Bank-International Development Association (IDA), Agency for International Development (USAID) and the Central American Bank for Economic Integration (BCIE).

¹⁰If the renegotiation had not been carried out, the latter figure would have risen to 77%, thus seriously aggravating the country's external situation.

Table 11

NICARAGUA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	618	723	724	677	510	552
Goods FOB	542	636	646	616	451	500
Services ^b	77	87	78	61	59	52
Transport and insurance	26	29	28	22	7	8
Travel	28	34	25	18	22	23
Imports of goods and services	600	848	665	517	933	1 031
Goods FOB	485	704	553	389	803	897
Services ^b	115	144	112	128	130	134
Transport and insurance	49	68	56	31	70	70
Travel	35	46	60	48	31	15
Merchandise balance	57	-68	93	227	-352	-397
Trade balance	18	-125	59	160	-423	-479
Profits and interest	-67	-68	-94	-72	-89	-93
Profits	-26	-28	-35	-13	-10	-8
Interest received	11	10	8	6	-	-
Interest paid	-52	-50	-67	-65	-79	-85
Unrequited private transfer payments	1	1	-	1	1	1
Balance on current account	-48	-192	-34	90	-511	-571
Unrequited official transfer payments	8	11	9	90	80	54
Long-term capital	44	211	135	112	...	...
Direct investment	13	10	7	3	...	...
Portfolio investment	-	-	-	-	...	...
Other long-term capital	31	201	128	109	...	...
Official sector ^c	14	140	123	107	296	...
Loans received	48	172	152	132	371	...
Amortization payments	-31	-27	-24	-22	-75	...
Commercial banks ^c	-7	-	-7	5	...	...
Loans received	-	-	-	-	...	...
Amortization payments	-	-	-	-	...	...
Other sectors ^c	24	62	12	-2	...	...
Loans received	55	97	58	15	...	...
Amortization payments	-31	-35	-46	-17	...	...
Basic balance	5	29	110	293	...	...
Short-term capital	-	-16	-184	-257	...	...
Official sector	6	9	-12	15	...	...
Commercial banks	-11	55	55	-20	...	...
Other sectors	5	-80	-227	-252	...	...
Errors and omissions (net)	-3	-4	-10	-30	23	...
Balance on capital account	50	-202	-49	-85	399	682
Global balance ^d	2	9	-84	5	-112	111
Total variation in reserves ^d (minus sign indicates an increase)	1	-9	83	-9	107	-115
Monetary gold	-	-	-	-1	-	-
Special Drawing Rights	1	-1	-1	6	-5	-4
IMF reserve position	-	-	-	-	-	-
Foreign exchange assets	-26	-2	99	-75	120	-86
Other assets	33	1	-15	7	-	-
Use made of IMF credit	-8	-8	-	55	-8	-25

Source: 1976-1980: International Monetary Fund, *Balance of Payments Yearbook*, 1981: ECLA, on the basis of official data.

^a Preliminary figures.

^b Services also include other official and private transactions, but not profits and interest.

^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^d The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Table 12

NICARAGUA: INDICATORS OF EXTERNAL INDEBTEDNESS^a

(Millions of dollars)

	1976	1977	1978 ^b	1979	1980	1981 ^c
Total external debt ^d	681	874	961	1 131	1 571	2 141
Servicing of external debt	88	98	103	60	60	206
Principal	40	50	52	18	22	86
Interest	48	48	51	42	38	120
Servicing of external debt, as a percentage of total exports	16.2	15.4	15.9	9.7	13.3	37.2

Source: ECLA, on the basis of information from the Ministry of Planning of Nicaragua.

^aEnd-year balance of debts having a term of over one year.^bOn 31 December 1978, the short-term debt amounted to US\$ 131 millions; commitments in respect of guarantees to US\$ 36 millions, private debt not guaranteed by the State, to US\$ 264 millions and State-guaranteed private debt, to US\$ 6 millions.^cPreliminary figures.^dFigures correspond to the public debt contracted.

4. Prices and wages

In spite of the economic policy measures aimed at moderating inflationary pressures, the consumer price index registered an increase between annual averages of almost 24%, which, although representing a reduction of inflation compared with the previous two years, was nevertheless well above the increases historically observed in prices (see table 13). This was due firstly to the high degree of monetization to which the real area of the economy has been subjected; secondly, to the difficulties still persisting in the intermediation system for the smooth circulation of goods, which have caused temporary price rises of a speculative nature; and finally to the limitations imposed by the shortage of foreign currency, which made it impossible to satisfy possible excess demand through imports.

In these circumstances, the Government adopted a number of measures to reduce the effects of inflation on the income of wage-earners. Thus, in spite of the opposition of the commercial sector, it continued to develop the programme for the distribution of basic consumption products through an increasing number of mass supply shops in both urban and rural areas. This programme—which in reality constitutes a form of subsidy to the consumer and has important repercussions on the public finances—succeeded in moderating and in some cases even avoiding increases in the prices of foodstuffs and some industrial products of very broad consumption (milk, sugar, etc.). Furthermore, thanks to the policy of promoting the production of basic grains—especially rice, beans and maize—it was possible to achieve better supply of these goods and to reduce the practices of hoarding and speculation observed in the commercial sector in the past.

In addition, controls continued to be applied in the private distribution network in order to ensure observance of the maximum prices to the public of a large number of products, thus also influencing the behaviour of consumer prices, although there were temporary shortages of some goods whose profit margins, implicit in the authorized prices, were too small in the view of the commercial sector.

This set of actions helped to keep down the prices of the popular consumption "shopping basket", which rose more slowly than the cost of living index, thus partially protecting the real income of wage-earners and peasants.

Because of the inflationary tendencies, and in order not to increase pressures on costs, a cautious wage policy was followed. The average minimum wage was only raised by 19%, which was less than the average increase in the consumer price index. In consequence, real

wages — which had already dropped by 34% in the previous two years— suffered a further decline of close to 4% in 1981 (see table 14).

Nevertheless, there are indications which make it possible to conclude that real family income, at least, suffered a much smaller deterioration, and that in some strata there was even a certain improvement in terms of general well-being.

Firstly, as already noted, the price of the basic family "shopping basket" increased a good deal less than the consumer price index, thanks to the participation of the State in intermediation and distribution. Secondly, there was a substantial increase in the non-monetary income of workers through the effect of such factors as special shops, sales of products at low cost, collective dining rooms, medical attention for the whole family in the enterprises, life insurance, public transport, etc. Thirdly, the increase in employment must have been reflected in an equivalent increase in family income. Finally, part of the private sector, competing with the enterprises in the Area of Public Ownership, gave wage rises higher than the adjustments made in the minimum wage, especially for semi-skilled labour.

This phenomenon is only to be seen in a diluted form in the social security statistics —the basis for the indicators referred to so far—, which have temporarily ceased to be comparable with the past because of the rapid changes made in the system of social security. Thus, in the last two years the coverage of the Nicaraguan Social Security and Welfare Institute was extended to cover enterprises whose wage levels are in the lower strata. Moreover, some enterprises have disappeared, while other have merged. Finally, through collective bargaining agreements workers have obtained benefits which are not taken into account in the statistics.

Table 13
NICARAGUA: EVOLUTION OF DOMESTIC PRICES^a

	1976	1977	1978	1979	1980	1981
Variation December to December						
Consumer price index	6.3	10.2	4.3	70.3	24.8	23.2
Food, beverages and tobacco	...	10.7	1.6	97.7	36.8	25.9
Clothing	...	2.6	4.3	46.0	21.0	24.0
Housing	...	8.9	7.9	35.3	9.7	23.7
Miscellaneous	...	12.5	5.5	65.6	14.3	16.0
Variation between annual averages						
Consumer price index	2.8	11.4	4.6	48.1	35.3	23.9
Food, beverages and tobacco	1.2	14.8	3.6	63.3	49.1	29.0
Clothing	0.6	2.8	3.3	26.3	32.5	20.5
Housing	4.1	6.9	6.3	29.9	13.9	20.6
Miscellaneous	5.1	12.3	4.8	45.2	28.2	15.2

Source: ECLA, on the basis of data from the Ministry of Planning of Nicaragua.

^aConsumer price index for the metropolitan area of Managua.

Table 14
NICARAGUA: EVOLUTION OF WAGES AND SALARIES

	Indexes (1975 = 100)				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Wages and salaries								
Nominal	120.2	153.9	137.9	164.6	4.5	28.0	-10.4	19.4
Real	100.4	88.4	66.1	63.8	-	-13.6	-33.8	-3.6

Source: ECLA, on the basis of official information supplied by the Nicaraguan Institute of Social Security and Welfare.

^aPreliminary figures.

Table 15

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of córdobas)

	1978	1979	1980	1981 ^a	Growth rates ^b		
					1979	1980	1981 ^a
1. Current income	1 621	1 892	4 526	5 506	16.7	139.2	21.6
Tax revenue	1 449	1 487	3 991	4 660	2.6	168.4	16.8
Direct	363	309	934	1 095	-14.9	202.7	17.2
Indirect	702	763	1 840	2 684	8.7	141.2	45.9
On foreign trade	384	415	1 217	881	8.1	193.2	-27.6
2. Current expenditure	1 875	2 587	5 008	6 986 ^c	38.0	93.6	39.5
Wages and salaries	702	903	1 562	1 954	28.6	73.0	25.1
Other current expenditure	1 173	1 684	3 446	5 032	43.6	104.6	46.0
3. Current saving (1 - 2)	-254	-695	-482	-1 480	173.6	-30.6	207.0
4. Capital expenditure	1 412	395	1 356	1 426	-72.0	243.3	5.2
Real investment	921	314	972	919	-65.9	209.6	-5.4
Debt amortization payments	384	81	170	274	-78.9	109.9	61.2
Other capital expenditure	107	-	214	233	...	...	8.9
5. Total expenditure (2 + 4)	3 287	2 982	6 364	8 412	-9.3	113.4	32.2
6. Fiscal deficit (1 - 5)	1 666	1 090	1 838	2 906	-34.6	68.6	58.1
7. Financing of deficit							
Domestic financing	920	996	450	1 971	8.3	-54.8	338.0
External financing	746	94	1 388	935	-87.4	1 376.6	-32.6

Source: ECLA, on the basis of data supplied by the Ministry of Planning of Nicaragua.

^aPreliminary figures.^bGrowth rates correspond to real, not rounded, figures.^cIncludes interest in the amount of 888.0 million córdobas.

5. Fiscal and monetary policy

(a) *Fiscal policy*

Because of the important promotional role assumed by the public sector and the efforts made to reduce the big deficiencies existing in the field of social services, the public sector deficit—together with the external sector imbalance and the monetary variables—became one of the imbalances which it was most difficult to handle, since it generated or aggravated imbalances in the financial area.

Although since 1980 the tax burden has been one of the highest in the region (17%), the evolution of tax revenue during 1981 was much slower than the increase in expenditure. Consequently, the fiscal deficit widened significantly and rose to the equivalent of around 10% of the nominal domestic product.

With the exception of revenue from income tax and from taxation on production and sales, which grew for the second consecutive year at higher rates than that of income, revenue from the remaining taxes rose more slowly, and duties on external trade showed considerable declines. There were two types of causes behind these phenomena: on the one hand, because of the drop in the international prices of the main products it was sought to stimulate the export sector through the reduction of certain taxes, while on the other, although imports of goods grew in nominal terms by 12%, this growth was due to an increase in the purchase of capital goods and inputs, which are normally subject to only a low level of taxation. The result was that tax revenue increased by 17%, which was less than the increase in the nominal product and in expenditure (see table 15).

Operating expenditure, for its part, rose 40% above the particularly high level of 1980, because of the incentives for production already referred to, subsidies to consumers of the basic "shopping basket", and the expansion of social services and public administration in general.¹¹ This uneven behaviour increased the negative balance on current account saving, the negative trend of which began in 1978. Indeed, as from that year the Government's financial capacity to generate current saving disappeared, and in 1981 fiscal revenue only permitted the financing of 79% of operating expenditure.

In addition, there was a considerable increase for the second year running in outlays on the payment of both the internal and external debt, thus limiting the financial possibilities for continuing to raise the level of investment of the central government.

The scantiness of resources, together with a number of limitations in administration and execution, caused government investment to drop by 5% compared with the high level reached in 1980, which was over three times that of the year before. Investment expenditure continued to be concentrated on the sectors which had already been receiving special attention for the last two years. Outstanding among the projects was the construction of the northern highway, which will have big repercussions on future productive activity, as it will incorporate a considerable amount of new production resources, especially in the areas of agriculture and mining. Substantial efforts were also made in the development of national energy sources, and the civil engineering works were begun on the projects known as COPALAR, Y-Y and Mojolka, while work continued on the Momotombo geothermal project, the first phase of which is scheduled to be completed in 1983. The entry into operation of these projects will relieve the balance-of-payments position by reducing the demand for hydrocarbons. Finally, work also continued on the projects for the construction of a number of hospitals, outstanding among them being those at Bluefields and Matagalpa, because of their size and the types of health services they will provide.

As already noted, the budget deficit reached the unprecedented level of rather more than 2 900 million córdobas and this result was projected onto the monetary variables, since in order to cover this gap the central government made use of domestic financing to a majority extent (almost 70%). In contrast, most of the external public financing was used by the quasi-autonomous institutions, the State public service enterprises, and the national financial system.

(b) *Monetary policy*

Monetary policy in 1981 was aimed at making more selective use of credit after the indiscriminate access given in 1980 in respect of any initiatives for restoring the economy. Thus, the objectives proposed were: "(i) promotion of priority activities such as small-scale production, non-traditional exports and the substitution of mass consumption imports; (ii) the stimulation of long-term saving, and (iii) the reversal of the present trend towards the def financing of the national financial system because of its unsuitable operating margins".¹²

In order to achieve these objectives, a number of operating regulations were laid down which were to be fulfilled by all enterprises using credit, regardless of whether they were from the private sector or the Area of Public Ownership.

In general terms, what was planned was an expansionary monetary policy as regards credit to the productive sector (an increase of 22%), within the context of the rationalization approach already referred to, and a more moderate growth (approximately 10%) of credit to the public sector.

By the end of the year, however, these objectives had been considerably exceeded. On the one hand, credit to the productive sector expanded by 25%, divided mainly between stock raising (78%), State marketing enterprises (76%), and to a lesser extent the industrial sector (43%) and crop farming (12%).

¹¹Current expenditure includes the transfer which the central government makes to other public institutions responsible for providing services and promoting the development of productive activities.

¹²See Ministry of Planning of Nicaragua, *Programa económico de austeridad y eficiencia*, 1981, January 1981.

The public sector also exceeded the domestic credit target, for the reasons laid down in the preceding section. Net loans to the central government increased by 34%, which was still a high rate, even though a good deal lower than those registered in the previous two years (see table 16). This was combined with more intensive growth of financing to public institutions (73%). Altogether, domestic credit grew by 30%, constituting a factor of expansion which was further strengthened by the improvement in the net international reserves position, so that the factors of expansion as a whole increased by 45%.

The factors of absorption, for their part, also grew rapidly, but for the third year running the economy was subjected to a strong monetization process which tended to neutralize the efforts made in other areas of the economy to reduce inflationary pressures. Thus, because of the monetary expansion, the liquidity coefficient¹³ of 20% registered in 1978 rose to 30% in 1979, 32% in 1980 and 31% in 1981.

One of the effects of the high degree of monetization of the economy, combined with the limitations imposed by the restricted availability of foreign exchange, which prevented the external sector from serving as a means of escape from these pressures, was the rise of an illegal parallel market for foreign exchange on which the exchange rate was over three times the bank rate and 25% higher than the official parallel market. The existence of this market also encouraged a number of speculative operations which brought distortions into the price system and fostered the appearance and proliferation of non-productive transactions, including the possibility of capital transfers abroad.

Table 16

NICARAGUA: MONETARY BALANCE^a

(Millions of córdobas)

	Balance at end of year				Growth rates ^c		
	1978	1979	1980	1981 ^b	1979	1980	1981 ^b
Money	1 888	3 508	4 432	5 682	85.8	26.3	28.2
Currency outside banks	886	1 571	1 957	2 431	77.3	24.5	24.2
Demand deposits ^d	1 002	1 937	2 475	3 251	93.4	27.8	31.3
Factor of expansion	7 329	8 534	11 714	16 968	16.4	37.3	44.9
Foreign assets (net)	-1 364	-1 925	-3 892	-3 315	41.1	102.2	-14.8
Domestic credit	8 693	10 459	15 606	20 283	20.3	49.2	30.0
Government (net)	716	1 522	2 383	3 191	112.7	56.5	33.9
Official entities ^e	33	280	1 111	1 916	737.0	296.0	72.6
Private sector and rest of Area of Public Ownership	7 944	8 657	12 112	15 176	9.0	39.9	25.3
Factors of absorption	5 441	5 026	7 282	11 286	-7.6	44.9	55.0
Quasi-money (saving and time deposits and securities issued)	2 763	2 210	2 640	3 347	-20.0	19.5	26.8
Long-term foreign borrowing	2 293	3 841	4 614	6 559	67.5	20.1	42.1
Other items (net)	385	-1 025	28	1 380	...	...	...

Source: ECLA, on the basis of data supplied by the Ministry of Planning of Nicaragua.

^aCovers Central Bank, Banco Nacional de Desarrollo, Banco de América, Banco de Nicaragua, Banco Inmobiliario, Banco de Crédito Popular, Ministry of Housing and Human Settlements (in respect of financing for house purchase), Fondo Especial de Desarrollo (FED), Financiera de Preinversión (FINAPRI), Instituto Nicaragüense de Seguros (INISER), savings and loan and investment companies, and other financial institutions.

^bPreliminary figures.

^cGrowth rates correspond to real, not rounded, figures.

^dIncluding "other deposits".

^eIncluding public service enterprises.

¹³The percentage relationship between the means of payment and the non-nominal domestic product.

PANAMA

1. Recent economic trends: Introduction and summary

In 1981 the economic growth rate again fell, with the gross domestic product rising by 3.6% compared to 4.9% in 1980, giving an annual average growth of 6.1% in the three-year period 1978-1980. This meant an increase of only 1.3% in the per capita product, substantially lower than the annual rate of 3.6% by which it had increased in the three-year period mentioned (see table 1 and figure 1).

Due to the high degree of external openness of the Panamanian economy and its strong specialization in service activities, the international recession has had a hard impact on it and weakened its development. Added to the slow rise in income from services provided to the exterior was the loss of dynamism in domestic private activity and investment. This, however, was partly counteracted by the greater activity in respect of participation in the trade established in the former Canal Zone and port and transit operations connected with the Canal.

Furthermore, the heavy external indebtedness and the high cost of servicing it limited the public sector's possibilities of expanding current expenditure and investment, and hence contributing to more rapid growth of economic activity. However, under the new conditions and possibilities opened by the treaty signed with the United States on the Canal in 1978, a series of projects are being developed and a new productive structure is being created, based on the possibilities and natural potential of the country, which will prevent further growth of the disparity between the urban economy —highly dependent on the exterior— and the rural economy, which is still subject to inefficient productive patterns.

The poor results turned in by agriculture in recent years not only slowed down growth possibilities but also helped produce greater pressures on the balance of payments. In 1981, in particular, rigidities appeared in production for domestic consumption, and there were no incentives to increase production in traditional export categories. The displacement of labour from rural to urban areas thus continued, further aggravating the unemployment problems in the cities. In order to offset these trends, agroindustrial programmes were developed for small and medium producers, the construction of sanitation and social projects for the rural population continued, and the field of action of community programmes designed to strengthen the organization of rural families and improve their farm productivity and incomes was extended.

The generation of jobs remained low, due to the slow growth in economic activity. On the other hand, there was an appreciable decrease in inflation and the real wages of workers in commerce and industry rose.

Despite the sluggishness of domestic productive activity and the small increase in prices, the International Financial Centre continued to expand its operations and to support —although residually— the needs of domestic commerce, which was stimulated in turn by the increase in demand from residents of the former Canal Zone. Nevertheless, there was no excessive availability of means of payment, due to the high rates of interest paid on savings deposits.

The balance of payments showed a resurgence of the trade deficit, which was double that of 1980, although it was lower than that of 1979. A contributory factor in this increase was the heavy use made of commercial credit for current purchases, as well as the greater outflow in respect of net payments of profits and interest, which meant that the current account deficit grew from about US\$ 290 million in 1980 to US\$ 420 million in 1981: the highest level so far recorded. Besides the worsening of the current account situation, there was a sizeable net inflow of capital of US\$ 440 million in 1981 which made it possible to raise the international reserves by US\$ 26 million (see table 1 and figure 1).

2. Trends in economic activity

(a) Total supply and demand

The drop for the second consecutive year in the growth rate of the gross domestic product was accompanied in 1981 by a small increase of 2.3% —only half of the 1980 growth rate— in total imports of goods and services, thus leading to a likewise very small increase (3.4%) in total supply. Since 1974 there has been a continual decline in the share of the import component in total supply, and the coefficient of imports with respect to the product has dropped since that year from 30% to 22% (see table 2).

On the demand side, the volume of exports of goods and services, of which 82% consists of services, fell nearly 3%, after the noteworthy expansion registered in 1980, mainly under the

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of dollars at 1970 prices)	1 749	1 744	1 823	1 942	2 078	2 179	2 258
Population (millions of inhabitants)	1.68	1.72	1.77	1.81	1.85	1.90	1.94
Per capita gross domestic product (1970 dollars)	1 043	1 013	1 033	1 074	1 122	1 150	1 164
Growth rates							
B. Short-run economic indicators							
Gross domestic product	0.6	-0.3	4.6	6.5	7.0	4.9	3.6
Per capita gross domestic product	-2.0	-2.8	2.0	4.0	4.5	2.5	1.3
Gross income ^b	-0.5	-2.7	3.6	6.0	5.4	1.2	4.6
Terms of trade (goods and services)	-3.9	-9.4	-2.6	-3.7	-7.0	-4.7	-0.1
Current value of exports of goods and services	13.3	-3.4	10.5	4.5	18.5	43.3	0.1
Current value of imports of goods and services	8.4	-3.9	4.7	10.5	23.7	24.6	5.4
Consumer prices							
December - December	1.4	4.8	4.8	5.0	10.0	14.4	4.8
Variation between annual averages	5.5	4.0	4.5	4.2	7.9	13.8	7.2
Wages and salaries ^c	5.2	1.9	0.3	-0.3	-1.1	-6.4	1.5
Rate of unemployment ^d	6.4	6.7	8.7	8.1	8.8	...	...
Current income of government	9.5	8.8	7.7	13.8	23.4	41.8	13.7
Total expenditure of government	10.4	5.5	7.2	19.2	44.0	14.1	14.2
Fiscal deficit/total expenditure of government ^d	29.3	27.1	26.7	38.7	47.5	34.7	35.0
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-141	-131	-90	-153	-239	-87	-178
Balance on current account	-189	-200	-183	-240	-357	-286	-421
Variation in international reserves	-16	15	-10	78	-21	17	26
External debt ^e	774	1 101	1 345	1 898	2 090	2 276	2 400

Source: ECLA, on the basis of official data.

^a Preliminary figures.

^b Gross domestic product plus terms-of-trade effect.

^c Real wage calculated on the basis of average nominal wages obtained by a survey of 500 industrial and commercial enterprises of Panamá City and Colón.

^d Percentages.

^e Disbursed external public debt. These figures differ from those presented in table 11, which refer to the contracted external public debt.

Table 2

PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	2 545	2 668	2 757	130.4	122.1	6.3	4.8	3.4
Gross domestic product at market prices	2 078	2 179	2 258	100.0	100.0	7.0	4.9	3.6
Imports of goods and services ^b	467	488	499	30.4	22.1	3.2	4.6	2.3
Total demand	2 545	2 668	2 757	130.4	122.1	6.3	4.8	3.4
Domestic demand	1 944	1 909	2 021	103.2	89.5	6.3	-1.8	5.8
Gross domestic investment	451	479	...	27.7	...	-6.2	6.2	...
Gross fixed investment	391	422	...	25.8	...	-11.7	7.8	...
Private	254	241	...	20.0	...	17.9	-5.1	...
Public	137	181	...	5.8	...	-39.8	31.7	...
Construction	209	244	...	15.3	...	-19.1	16.2	...
Machinery and equipment	182	178	...	10.5	...	-1.3	-2.0	...
Changes in stocks	60	58	...	1.9	...	-	-	-
Total consumption	1 495	1 430	...	75.5	...	10.1	-4.4	...
General government	346	347	...	14.6	...	5.2	0.3	...
Private	1 149	1 083	...	60.9	...	11.7	-5.8	...
Exports of goods and services ^b	601	759	737	27.2	32.6	6.2	26.3	-2.9

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

^a Preliminary figures.

^b The figures for exports and imports of goods and services were taken from balance-of-payments figures deflated by using price indexes calculated by ECLA for that purpose.

heading of services (57%), with the incorporation of activities carried out in the former Canal Zone. This decline in exports of goods and services made possible a significant recovery in the level of domestic demand, which increased by a little under 6% after the contraction of 1980.

Unfortunately there is no information available on the behaviour of investment and consumption in 1981. The only data available show that there was an increase of 14% in nominal terms in investment and capital transfers made by the Government, an increase of nearly 9% in the value of imports of capital goods—which must not have represented much of a difference in their volume—and a drop of about 7% in construction. Despite the significant decline of the latter activity, progress was made during the year in the hydroelectric plant projects and in the laying of the 600 000 barrel/day pipeline which will cross the country from coast to coast.

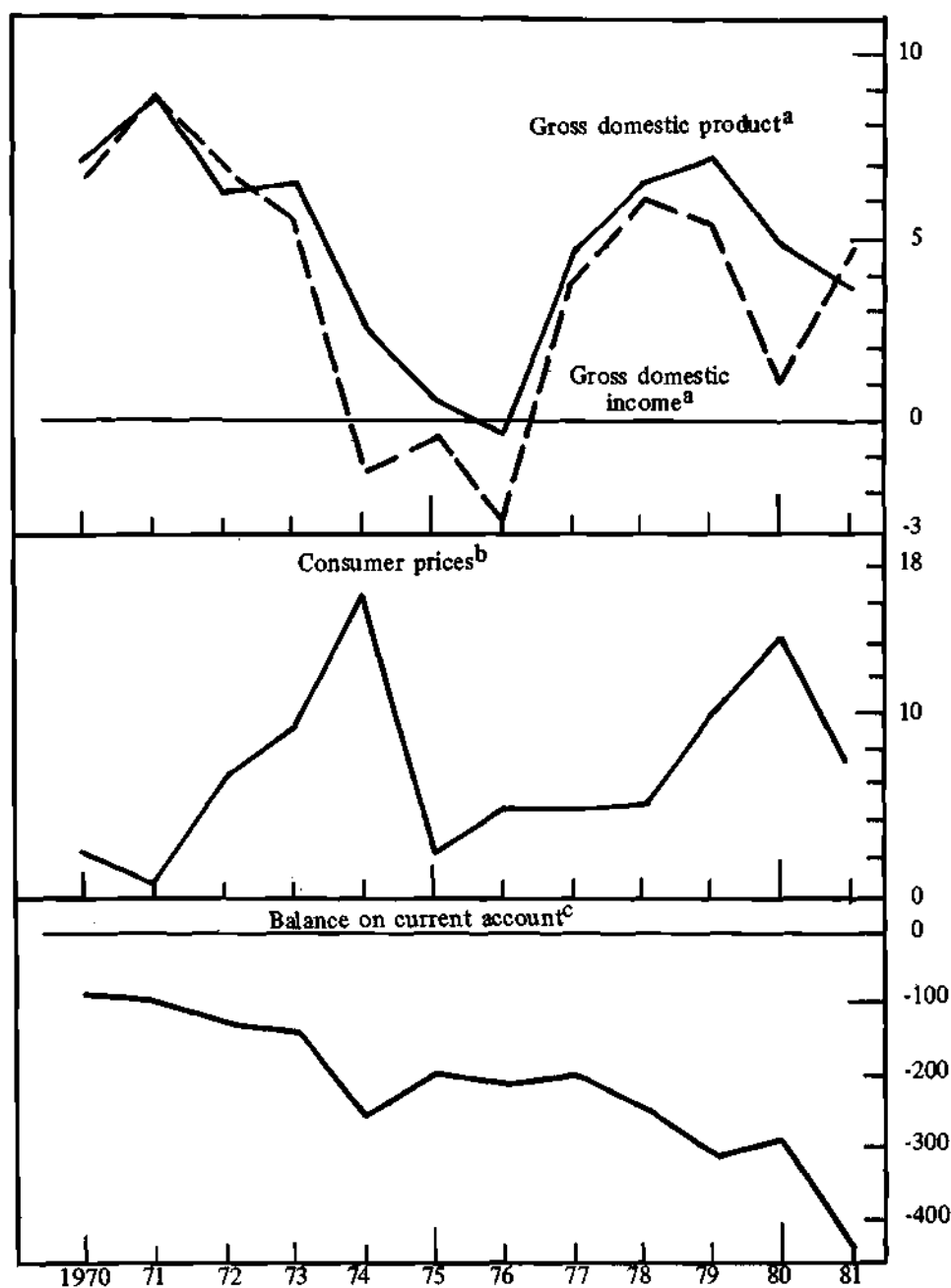
(b) Evolution of the main sectors

On the supply side, the fall in the growth rate of the product was due to the depression of the goods-producing sectors, especially manufacturing and construction, since the production of services, with the exception of public administration and ownership of dwellings, generally tended to expand more rapidly than in 1980 (see table 3).

The Panamanian economy thus once again showed the structural weaknesses arising from the low level of development of directly productive activities, and especially from the low level of integration among the different economic sectors. To this was added the lack of dynamism in the export of services; those which did grow did so largely due to the incorporation of activities which were already in operation in the Canal Zone.

Thus, the different components of the overall product showed a very similar structure of that of 1971, and there were even signs of a regression in the weight of the value added by goods and an increase in the participation of both basic government services and of transport, commerce and

Figure 1
PANAMA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation from December to December.

^cMillions of dollars.

Table 3

**PANAMA: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	1 715	1 799	1 864	100.0	100.0	5.7	4.9	3.6
Goods	593	617	601	43.0	33.5	4.6	4.0	-2.6
Agriculture	294	297	294	19.9	16.3	-3.4	1.1	-1.2
Mining	4	5	5	0.3	0.3	7.5	7.0	-3.2
Manufacturing	201	209	204	15.9	11.4	16.9	4.0	-2.3
Construction	94	106	99	6.9	5.5	7.9	12.9	-7.0
Basic services	247	263	284	8.2	15.9	12.8	6.5	8.2
Electricity, gas and water	59	63	68	2.1	3.8	16.1	6.9	7.8
Transport, storage and communications	188	200	216	6.1	12.1	11.7	6.3	8.4
Other services	835	866	907	48.8	50.6	3.4	3.6	4.8
Commerce and finance ^c	196	214	237	13.9	13.2	3.9	9.5	10.7
Ownership of dwellings	139	148	156	6.0	8.7	3.2	6.1	5.5
Government services	63	70	72	3.1	4.0	3.4	10.6	3.2
Other	437	434	442	25.8	24.7	3.1	-0.8	1.8

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cExcluding restaurants and hotels.

finances: activities which are largely representative of the functional model of the transition economy, which has thus become more important in the long-term perspective.

The persistent weakening of agriculture raises fears that the country may become extremely dependent on imports of food, especially if urban development assumes the extremely dynamic character implicit in the current development strategy. The same could occur with the industrial sector. The current agroindustrial development programmes centered on small and medium-sized industries and the promotion of industrial parks in the interior may be an important element in offsetting this tendency and improving the well-being of broader sectors of the population.

(i) *Agriculture.* According to preliminary estimates, the agricultural sector continued to display the relative stagnation observed in recent years. Thus, during 1981 the agricultural product dropped by slightly over 1%, compared with the small increase shown the previous year (see tables 3 and 4). This situation led to an intensification of the development policy which the Government has been applying recently in support of agricultural development.

The production of basic commodities such as maize and beans in 1981 was once again lower than anticipated. This was due to the instability of the rainfall pattern, since there was heavy rainfall during the planting period and a serious drought in the growing season, forcing the country to import large volumes of these products during the year. Purchases of maize from abroad reached a total of one million quintals, or 25% more than in 1980. This grain was destined primarily for the production of poultry feed, for because of price considerations the consumption of chicken has begun to displace that of beef for the past two years.

The production of rice, however, increased considerably (20%) due to greater mechanization of the cultivation work, and thus recovered its level of four years previously, although it was still below that of 1976. Production had been declining, among other reasons, because of the difficulties encountered in selling the product abroad on account of the high costs of domestic production. The

problem was also aggravated by the smuggling of rice from neighbouring countries, especially Costa Rica, since the price is much higher in Panama.

In the case of bananas, satisfactory results were obtained despite the labour conflicts which occurred during the year and which paralysed production for a month. It is estimated that production increased 7.6% and the value of exports more than 22%.

The production of other less important crops such as lentils, onions and tobacco did not show major variations compared to the levels of recent years, and this situation will continue to be reflected in growing amounts of imports.

The economic authorities are concerned about the pressure which the low level of domestic food production is exerting on the balance of payments. On the export side, the lack of competitiveness of national products in the exterior continued to grow, both because of reduced productivity and high domestic costs, which are influenced by the higher prices of imported inputs. On the external purchases side, imports of food increased and the smuggling of Costa Rican products was intensified. At the same time, producers increased their demands for higher support prices for rice, maize and beans, due to the rise in production costs.

Cattle slaughtering increased more than 11%, both because of greater domestic consumption of beef and because of an increase in sales to the United States.¹ This increase in production was accompanied by a drop for the third consecutive year in livestock herds which will have negative effects later on. Pig slaughtering, for its part, increased 9%, since pork and poultry have displaced part of the consumption of beef, due to the high prices of the latter.

There are large investment projects in the sector. Those for supporting production of basic grains, to be carried out in regions of new human settlements, are related to integral social programmes.

The 1981 public investment programme in the agricultural sector, for a value of slightly under 72 million balboas, dealt with quite diverse aspects, such as financial investments consisting

Table 4

PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of agricultural production (1960 = 100)								
Crop-farming	205.6	205.8	201.6	...	-10.9	0.1	-2.0	...
Stock-raising	210.8	194.0	210.3	...	4.8	-8.0	8.4	...
Production of the main crops (thousands of quintals)								
Rice	3 508	3 737	3 780	...	-12.8	6.5	1.2	...
Maize	1 422	1 695	1 390	...	-19.1	19.2	-18.0	...
Beans	72	102	90	...	-19.0	41.7	-11.8	...
Sugar cane ^b	3 000	3 177	3 194	...	1.3	5.9	0.5	...
Bananas ^b	1 064	1 043	995	1 071	24.2	-2.0	-4.6	7.6
Indicator of stock-raising production (thousands of head)								
Stock								
Cattle	1 395	1 437	1 405	1 345	1.6	3.0	-2.2	-4.3
Pigs	204	190	211	209	1.0	-6.9	11.1	-0.9
Poultry	4 872	4 913	4 797	5 073	10.2	0.8	-2.4	5.8
Number of animals slaughtered								
Cattle	216	197	215	239	-10.0	-8.8	9.1	11.2
Pigs	104	105	121	132	8.3	1.0	15.2	9.1

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

^aPreliminary figures.

^bThousands of tons.

Table 5

PANAMA: INDEXES OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Index of manufacturing production (1971 = 100)	119	124	129	126	10.5	4.1	-4.2
Foodstuffs, beverages and tobacco	134	153	160	161	14.4	4.4	-3.0
Footwear, clothing and leather goods	126	136	140	134	8.4	2.8	0.8
Wood, furniture and fittings	56	64	70	62	14.7	8.8	-8.4
Paper, printing and publishing	104	105	113	106	1.0	8.2	-12.0
Rubber, chemicals and petroleum product	104	109	109	105	4.5	0.1	-5.3
Non-metallic mineral products	84	94	95	90	11.5	0.9	-9.3
Basic metals	73	113	145	143	53.5	28.6	-0.8
Metal products	92	94	99	95	2.0	4.7	-4.3
Other manufactures	108	127	101	120	17.3	-20.7	21.0

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

^aCorresponding to the period January to September. The rates have been calculated with respect to the same period in 1980.

of credit to small and medium-sized producers and associations of producers, earmarked for infrastructure works; purchase of machinery and equipment, and agricultural extension services and research.

Noteworthy among the activities carried out during the year were those for protecting natural resources and the environment. The Ministry of Agricultural Development (MIDA) continued its programme of protection of the hydrographic basins of the Panama Canal and the rivers Caldera and La Villa, together with the agro-forestry development programme at Coclé and Veraguas.

As regards livestock, a project was begun on animal health, involving the construction of infrastructure to facilitate the provision of services, the establishment of a system of epidemic surveillance and disease control, and the adoption of measures for preventing foot and mouth disease and swine fever.

Another important project was that on agricultural marketing. In order to provide the Agricultural Marketing Institute (IMA) with greater and more efficient capacity for handling basic grains, grain purchase and storage centres were built in isolated regions of the country. In addition, with the aid of a loan from IDA, it is planned to construct three terminal plants for receiving, drying and storing basic grains. Another project with IMA financing is that for remodelling the Tocumen cold storage plant to increase its storage capacity for perishable products.

(ii) *Manufacturing and construction.* According to preliminary information, the manufacturing added value decreased slightly over 2%, compared with a rise of 4% in 1980. Contributing to this drop was the sharp decline in construction and the drop in output of the oil refinery, the latter being related to the slow evolution of domestic consumption and the slowdown of transport operations through the Canal.

The manufacturing production index shows that the fall in production in 1981 was common to practically all industrial branches, although in varying degrees. The biggest decrease was in paper products and printing, while the industries related to the construction sector, such as non-metallic minerals, lumber and metal products suffered decreases of 8%, 9% and 4%, respectively. The production of chemical industries and petroleum refineries, for its part, fell 5%. The

¹The consumption of various types of meat was approximately 19 kilogrammes per person in 1981. This represents some degree of recovery from the decline in consumption which had occurred since 1977, when the figure was 23 kilogrammes per person.

important food, beverages and tobacco industry, whose output growth rate had already slowed down significantly in 1981, showed a further decrease of 3%; the clothing industry, however, which had behaved similarly in 1980, showed a slight increase (see table 5).

Among the most significant efforts at reactivation made in the industrial field was that of the Banco Nacional de Panamá in its "fourth programme for the financing of small- and medium-sized industry", designed mainly to encourage various investment initiatives in agroindustrial activities. At least 30% of the funds of this programme are oriented towards financing projects located in the interior of the country. The Ministry of Commerce and Industry, for its part, is establishing industrial parks and has made investments in the urbanization of 34 hectares at David and Chitré, with a view to setting up small and craft-oriented enterprises.

Finally, greater resources were provided for the Corporación de Desarrollo Panameño (Panamanian Development Corporation) through, *inter alia*, a new IBRD loan for US\$ 15 million, in order to continue promoting projects for import substitution and the diversification of industrial exports. At the same time, this Corporation continued to make full use of the facilities administered by the Pre-investment Fund of the Planning Ministry for effecting feasibility studies.

As regards construction, the sharp reduction in its product (-7%) had a major impact on the production of materials related to this activity and on levels of employment.

According to preliminary information, the area of new construction in the district of Panama City decreased slightly over 6%, although the part of this total accounted for by housing increased nearly 20% (see table 6). A significant event in 1981 was the change which occurred in the composition of construction, with the increase in construction of popular and middle-level housing and a pronounced decline in luxury residential building, commercial premises and offices: a tendency which contrasted with the considerable expansion in the latter in 1979 and especially in 1980. These divergent trends also explain the fall in the construction product, in view of the considerable difference in the value per square metre of the two types of construction.

In response to the depressive situation of private construction, tax measures were taken which had some partial effects, although they did not have a decisive impact on the situation. Thus, for example, the period of exemption from real estate tax in respect of new constructions was extended.

(iii) *Services*. In contrast with what occurred with the production of goods, the product generated by services achieved a higher growth rate than in 1980 (see table 3). A determining factor in this was the intensification of the electricity generation programmes and the extension of sewerage services. The hydroelectric programme, which has top priority, has been receiving particularly strong support along with that for the electrical interconnection with Costa Rica. Another factor contributing to the dynamism of services was the incorporation of activities which already existed in the Canal Zone, together with the greater degree of integration achieved in the relations with this Zone with the Panamanian economy. Finally, the reactivation of commercial and financial activities contributed to the recovery of the operations of the international financial centre, which had fallen off in 1980.

Table 6
PANAMA: INDICATORS OF CONSTRUCTION

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Surface constructed ^b (thousands of m ²)							
Total	205	411	401	376	100.5	-2.4	-6.2
Housing	132	203	208	249	53.8	2.5	19.7

Source: ECLA, on the basis of figures provided by the Statistics and Census Office.

^a Preliminary figures.

^b Refers to building permits granted in the District of Panamá City.

Table 7

PANAMA: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods						
Value	-18.7	7.2	4.6	10.6	11.8	-9.2
Volume	-2.6	11.3	8.8	-11.1	-8.4	-0.2
Unit value	-16.6	-3.7	-3.8	24.5	22.1	-9.0
Imports of goods						
Value	-4.8	0.9	9.1	28.2	21.7	2.2
Volume	-10.2	-4.1	2.6	5.2	-2.1	-0.7
Unit value	6.0	5.2	6.3	21.8	24.3	2.9
Terms of trade	-21.3	-8.3	-9.2	3.1	1.1	-12.4
Indexes (1970 = 100)						
Terms of trade	87.1	79.9	72.5	74.8	75.6	66.2
Purchasing power of exports of goods	94.2	96.4	95.3	88.0	82.6	72.7
Purchasing power of exports of goods and services	97.9	103.3	102.0	100.8	121.3	117.7

Source: ECLA, on the basis of official data.

^aPreliminary figures.

On the other hand, the decline in agricultural, industrial and construction output and the stagnation or only scanty increase in tourism and international transport had a recessive effect on a wide range of services. Moreover, the rate of growth of government consumption expenditures was kept low in an effort to prevent too much of an increase in the fiscal deficit.

3. The external sector

The Panamanian economy, like those of most Latin American countries, suffered serious difficulties in its external relations in 1981, and very diverse factors contributed to the aggravation of the trade deficit and the slowdown in the rate of activity in Canal operations.

The combination of an appreciable drop of 9% in exports of goods and a scanty increase of only 2.8% in sales of services (much lower than the rise of 57% registered in 1980) meant that the trade imbalance was double that of the previous year, although the increase of 5.4% in imports of goods and services was also much lower than the year before, when it was nearly 25%. Sales of services were four times those of goods, and their behaviour was therefore a very important factor in the stability of the balance of payments.

As a result of the international recession, a smaller number of tourists visited the country in 1981, and shipping traffic through the Canal rose by less than 1%: events which naturally had an effect on domestic commercial activity. This situation, however, was partly offset by the increase in the former Canal Zone market. Similarly, the greater integration of the ports of Balboa and Cristóbal into the national economy—in accordance with the application of the Torrijos-Carter Treaty—has had a significant impact on transport activities.

The stagnation of total exports (including services) was due to a small decline in volume (after an increase of 26% in 1980) and a rise of 3% in unit value (similar to that of import prices). However, the unit values of exports of goods suffered a considerable drop (9%), and with the above-mentioned increase in imports this led to a deterioration of 12% in the terms of trade (whose level has declined 24% since 1976 and 34% since 1970), together with drops of 12% in the purchasing power of exports of goods and 3% in that of exports of goods and services (see table 7).

(a) *Merchandise trade*

(i) *Exports.* Exports of goods suffered an appreciable decline in 1981: something which had not occurred since 1976. Between 1976 and 1980 they increased nearly 40%, with very uneven variations in regard to prices and volume exported. In 1981 their volume fell slightly (compared with 19% in the two previous years), but their unit value decreased by 9%.

With the exception of bananas, current values of sales of the principal export products fell during the year. Exports of petroleum products, which along with bananas and sugar represent 60% of total exports, decreased by around 24%; due mainly to the drop in prices on the world hydrocarbons market as from the second half of the year. Similarly, in line with the worldwide economic recession, the demand for fuels by ships in transit remained at similar levels to those of the previous year.

On the other hand, banana exports improved significantly in 1981, since their production was favoured by climatic conditions and the solution of labour problems. Even so, this only represented a recovery of levels of exports already reached previously (see table 8).

Sugar sales declined by approximately 5% after the considerable increase registered in 1980. There were production problems during the year in the principal refineries of the country, especially that at Santiago, and there was also a shrinking of world demand for sugar, and especially in that of the United States.

Exports of shrimps decreased for the second consecutive year, this time by 7%, although prices on the external market improved in the second half of the year. Fish meal sales also declined (by 30%) as a result of the smaller catch.

There was also a 10% decline in the value of coffee sales, which have fluctuated between US\$ 9 and 10 million for many years, because of the low prices of this commodity which only began to recover in the last months of 1981.

Finally, a large number of relatively less important products, among them cocoa and meat, showed a marked decline in 1981, confirming the downward trend of recent years.

The authorities continued their efforts to increase export during the year. In this respect, an agreement was signed with Mexico whereby the latter country will grant preferential treatment to imports of 39 Panamanian products. The mechanism administered by the Mexican authorities functions quite expeditiously and consists of refunding to the national importer 75% of the *ad valorem* tax paid on imports of these products. It is estimated that the value of preferential exports to Mexico totalled some US\$ 9 million in the last four months of the year.

Table 8
PANAMA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1974	1981 ^a	1979	1980	1981 ^a
Total	302	334	373	339	100.0	100.0	10.6	11.8	-9.2
Main traditional exports	195	227	274	258	...	76.1	16.4	20.7	-5.8
Petroleum products	60	72	82	62	34.5	18.3	20.4	11.4	-24.4
Bananas	72	66	62	76	19.8	22.4	-8.3	-6.1	22.6
Shrimps	30	45	44	41	...	12.0	50.0	-2.2	-6.8
Unrefined sugar	20	26	66	63	11.0	18.6	30.0	153.8	-4.5
Coffee	9	10	10	9	1.7	2.7	11.1	-	-10.0
Fishmeal	4	8	10	7	0.5	2.1	100.0	25.0	-30.0
Other exports	107	107	99	81	...	23.9	-	-7.5	-118.2

Source: ECLA, on the basis of official data.

^a Preliminary figures.

^b Including sales to ships and aircraft and to the Canal Zone.

Table 9

PANAMA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	862	1 089	1 345	1 374	100.0	100.0	26.3	23.5	2.2
Consumer and intermediate goods, except crude oil	529	637	772	823	62.0	59.9	20.4	21.1	6.6
Crude oil	208	302	385	347	18.3	25.2	45.0	27.5	-9.9
Capital goods	125	150	188	204	19.7	14.9	20.1	25.4	8.7

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

^aPreliminary figures.

(ii) *Imports of goods.* In contrast with the rapid expansion registered in the past three years, there was a sharp deceleration in imports of goods in 1981, due to a smaller increase in their prices (which had increased sharply in 1979 and 1980) rather than to the reduction of less than 1% in the volume imported (see table 7).

Besides the small increase in the prices of imported products, another influence in the small expansion of imports was the slower growth of domestic economic activity, the reduction in purchases of crude oil and the weakening of demand for imported consumer goods (see table 9).

The decrease in petroleum imports was especially affected by the change from the thermal generation of electric power to hydroelectricity, which now accounts for 68% of total generation. The slower rate of purchases of imported consumer goods, which continued to account for a fairly high relative share (around 60%) of total imports, was influenced among other factors by the high cost of external credit, difficulties in obtaining it, and the slower development of domestic commercial activity.

(b) *Services trade*

In 1981 income from the sale of services was 3% greater than in 1980. The favourable initial impact of the Canal treaty on this income, which caused it to rise from US\$ 790 million in 1979 to US\$ 1 230 million in 1980,² thus slowed down considerably. Under this treaty, Panama receives US\$ 10 million in compensation for providing public services in the areas used by the Canal Commission, a joint body which will continue to be responsible for ship passage operations. In addition, it receives a fixed annual amount of US\$ 10 million and a variable sum equivalent to 30 US cents per net ton transported. Another important contribution to the increase in income from services was the operation of the installation which became Panamanian property, among them three ports,³ the trans-Isthmus railroad and two airports. Furthermore, although the Canal Commission remained responsible for the necessary activities for inter-oceanic passage operations, all the commercial activities were transferred to Panama.

According to preliminary figures, income from tourism barely remained at the same level as the previous year. This was due both to the effect of the international economic crisis on this activity and to the economic difficulties of neighbouring countries with which Panama has important trade and tourist relations. Thus, the number of visitors entering by Paso Canoas on the border with Costa Rica decreased by 35%, from 65 000 to 42 500 persons. Moreover, the number of visitors entering by Panama City International Airport decreased slightly. However, according

²When analysing the data on the sale of services appearing in table 10, it should be noted that the 1981 figures are not strictly comparable to those of previous years, due to methodological differences.

³The operation of the ports of Cristóbal and Balboa became the responsibility of the National Port Authority.

Table 10

PANAMA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981
Exports of goods and services	848	819	906	947	1 122	1 607	1 608
Goods FOB	331	269	288	302	334	373	339
Services ^a	517	550	617	645	788	1 234	1 269
Transport and insurance	152	141	133	105	113	539	576
Travel	137	154	177	201	232	168	171
Imports of goods and services	989	950	995	1 100	1 360	1 695	1 786
Goods FOB	823	783	790	862	1 105	1 345	1 374
Services ^a	166	167	205	238	256	350	412
Transport and insurance	100	95	112	127	142	222	261
Travel	32	34	35	37	39	56	65
Merchandise balance	-492	-514	-502	-560	-771	-971	-1 035
Trade balance	-141	-131	-90	-153	-239	-87	-178
Profits and interest	-23	-41	-64	-54	-81	-145	-180
Profits	3	-2	-21	-16	-22	-52	-36
Interest received	374	411	482	795	986	2 107	2 440
Interest paid	-400	-450	-525	-832	-1 044	-2 199	-2 584
Unrequited private transfer payments	-26	-28	-30	-34	-37	-54	-63
Balance on current account	-189	-200	-183	-240	-357	-286	-420
Unrequited official transfer payments	21	24	28	31	54	41	...
Long-term capital	185	723	-113	453	301	279	...
Direct investment	8	-11	11	-1	40	39	...
Portfolio investment	1	-	13	70	204	16	...
Other long-term capital	177	734	-137	383	57	223	...
Official sector ^b	66	83	90	341	114	215	...
Loans received	89	107	123	685	225	284	...
Amortization payments	-22	-23	-32	-344	-111	-66	...
Commercial banks ^b	15	445	-411	-33	-43	42	...
Loans received	15	445	1	-	43	42	...
Amortization payments	-	-	-412	-33	-	-	...
Other sectors ^b	95	205	184	76	-100	-33	...
Loans received	119	249	246	213	95	102	...
Amortization payments	-21	-41	-59	-144	-196	-136	...
Short-term capital	78	-377	331	-156	410	-410	...
Official sector	-2	1	3	5	-3	2	...
Commercial banks	93	-377	377	-162	433	-385	...
Other sectors	-14	-1	-50	1	-20	-26	...
Errors and omissions (net)	-117	-153	-70	-2	-436	387	...
Balance on capital account	167	217	176	327	330	297	440
Global balance ^c	-23	17	-7	86	-27	11	20
Total variation in reserves (minus sign indicates an increase)	16	-15	10	-78	21	-17	-26
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-5	1	1	-	-	4	-2
IMF reserve position	-	-	-	-5	2	-7	10
Foreign exchange assets	9	-46	7	-75	30	5	-11
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	11	29	2	1	-11	-18	-23

^aServices also include other official and private transactions, but not profits and interest.^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.^cThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

to figures which go up to the third quarter of the year, there was a recovery in income from passengers in transit.

Expenditures for services, which are much smaller than income under this heading, increased by 18% in 1981, so that the services balance of US\$ 857 million at the end of 1981 came to US\$ 27 million less than in 1980 (see table 10).

(c) *The current account deficit and its financing*

The lower net income from services, plus the bigger deficit on merchandise trade, led to the doubling of the trade deficit in 1981. When the net outflow for remittances of profits, payment of interests and private transfers abroad is added to this, the result is a large imbalance of US\$ 420 million on the current account of the balance of payments, US\$ 135 million (47%) higher than that of 1980.

Although the imbalance on current account was thus increased, there was a net inflow of non-compensatory capital in the amount of US\$ 440 million, US\$ 143 million (48%) higher than the previous year, which enabled the country's international reserves to be increased by US\$ 26 million (see table 10).

(e) *External indebtedness*

During the year, the public sector disbursed approximately US\$ 380 million in external credits with a repayment period of over one year, or approximately US\$ 35 million less than in 1980. Thus, after deducting the amortization payments made during the year, the external public debt contracted amounted to US\$ 2 335 million at the end of 1981, or US\$ 124 million more than the previous year.

Debt servicing totalled US\$ 537 million, that is to say, it exceeded the amount of disbursements and was equivalent to one-third of exports of goods and services. Servicing payments came to US\$ 83 million more than in 1980, slightly over half the total consisting of amortization payments and the rest of interest (see table 11).

Long-term credits, mainly directed to the official sector, went mostly to finance the programme of public investments in the Colón Free Zone, on land returned to the country since 1979. This project includes the construction of a trade centre, the creation of industrial parks designed for the establishment of light industries and re-export, subcontracting industries and the building of a tourist centre.

It is hoped to promote a steady flow of direct private investments (which have fluctuated around US\$ 40 million in recent years), since in addition to the infrastructure programme in progress, there are other incentives such as the absence of exchange problems, the geographical situation, the port installations and the favourable tax incentives for developing light export industries.

Table 11

PANAMA: EXTERNAL PUBLIC DEBT

(Millions of dollars)

	1976	1977	1978	1979	1980	1981 ^a
External public debt ^b	976	1 274	1 777	2 009	2 211	2 335
Debt servicing	123	166	599	501	454	537
Capital payments	67	93	478	324	216	260
Interest payments	56	73	121	177	238	277
Debt servicing as a percentage of exports of goods and services	15.0	18.3	63.3	44.7	38.3	33.4

Source: ECLA, on the basis of figures supplied by the Statistics and Census Office.

^a Preliminary figures.

^b End-year balance of debt contracted for over one year by the Central government and decentralized agencies.

4. Domestic prices and wages

(a) *Evolution of domestic prices*

One of the important aspects of the way in which the economy evolved in 1981 was the appreciable reduction in inflation, which had reached levels hitherto unknown in the country in the two previous years. Thus, the growth rate of wholesale prices, which had risen in 1979 and 1980 by around 16% and 14% (December-to-December variations), fell to less than 9%, and the decline in the growth of the consumer price index was even more noteworthy, since it dropped from 10% and 14% in 1979 and 1980, respectively, to only 4.8% in 1981. The variation between the annual averages for consumer prices was slightly over 7%, however (see table 12).

Despite the essentially open character of the Panamanian economy, the evolution of the import component of the wholesale price index did not reflect the small increase in the prices of imports in 1981, among them those of petroleum, a product which is strongly represented in imports and has a big influence on the domestic costs and prices. The prices of oil-based fuels refined in the country increased nearly 13% during the year, and although this was much less than the increase of 45% in 1980, it still had a strong impact on the prices and tariffs of transport and public services and on industrial costs.

The prices of agricultural products in the wholesale price index showed only a slight increase in 1981 (especially when comparing the months of December), as a result of the participation of the Agricultural Marketing Institute in the marketing of these products. Most of the products marketed by the Institute did not rise in price, or if they did the increase was much lower than that of 1980. Thus, for example, the price fixed for rice remained unchanged, although it had risen 37% in 1980, and that of maize rose by only 4%, much less than the 20% of the previous year.

Despite the smaller growth in agricultural wholesale prices, the increase in food costs in the consumer price index was greater than that of the index as a whole. This was due to the rigidity in the domestic supply of some major food products, whose production had to be supplemented with imports, as in the case of milk products and meat.

(b) *Wages and salaries*

During 1981 increases in wages and salaries were authorized under the rules of the system in force, which limits collective bargaining and assigns a role in it to the Ministry of Labour.

Between 1977 and 1980 it is estimated that real wages declined by about 8%. The results of the periodic surveys of industrial and commercial enterprises shows a slight increase of 1.5% in real wages in 1981. According to this information, the real wage index has recovered its 1974 level, but this would still leave it several points below that of 1977. It should be noted that in 1977 the country began to come out of the deep recession which began three years before and that the application of a wage policy which served as an incentive to private investment helped to speed up this recovery.

Table 12
PANAMA: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981 ^a
Variation December to December						
Consumer price index	4.8	4.8	5.0	10.0	14.4	4.8
Food	2.9	2.6	9.2	8.8	15.6	6.5
Wholesale price index	3.8	9.1	7.0	15.7	13.8	8.8
Variation between annual averages						
Consumer price index	4.0	4.5	4.2	7.9	13.8	7.2
Food	1.4	3.0	6.2	10.2	12.6	9.2
Wholesale price index	7.8	7.2	5.4	14.0	15.3	10.0

Source: ECLA, on the basis of data supplied by the Statistics and Census Office

^aPreliminary figures.

Table 13

PANAMA: CONSOLIDATED BALANCE SHEET OF THE BANKING SYSTEM

	Year-end balances (millions of balboas)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Assets^b	15 665	22 487	22 262	26 791	43.5	-1.0	21.8
Liquid assets	4 708	7 947	5 155	5 581	68.8	-35.1	-3.3
Cash	54	114	90	77	111.1	-21.1	...
Domestic liquid assets	82	82	94	111	-	14.6	...
External liquid assets	4 572	7 751	4 971	5 393	69.5	-35.9	-3.4
Demand deposits in banks	47	241	282	158	502.5	17.0	...
Time deposits in banks	4 248	7 206	4 427	5 090	69.6	-38.6	5.7
Deposits in the International Monetary Fund	16	16	18	11	-	12.5	...
Other assets	261	288	244	134	10.3	-15.3	...
Investments	10 479	13 311	15 925	19 727	27.0	19.6	30.2
Credit portfolio	10 338	13 042	15 278	18 894	26.1	17.1	30.3
Domestic	7 843	2 133	2 531	2 991	15.7	18.6	27.0
External	8 495	10 909	12 747	15 903	28.4	16.8	31.0
Securities	141	269	647	833	90.8	140.5	26.4
Other assets	478	1 229	1 182	1 483	25.5	-3.8	37.8
Liabilities and capital^b	15 665	22 487	22 262	26 791	43.5	-1.0	21.8
Demand deposits	683	740	936	953	8.3	26.5	5.0
Private sector	242	296	329	301	22.3	11.1	2.7
Public sector	204	111	127	177	-45.6	14.4	4.1
Foreign depositors	161	224	240	173	39.1	7.1	-25.8
Foreign banks	76	109	240	302	43.4	120.1	42.4
Time and savings deposits	14 121	20 367	19 406	23 247	44.2	-4.7	22.0
Private sector	707	869	1 147	1 353	22.9	32.0	27.6
Foreign depositors	1 460	2 066	2 323	3 151	41.5	12.4	59.5
Foreign banks	11 954	17 432	15 936	18 743	45.8	-8.6	17.0
Commitments	164	204	233	428	24.4	14.2	-17.9
Other liabilities, capital and reserves	697	1 176	1 687	2 163	68.7	43.4	42.0

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

^aBalance at end of September. The rates were calculated with respect to the balance in September 1980.

^bExcluding operations between local banks.

5. Financial aspects and the fiscal situation

(a) Financial aspects

Time deposits made in the International Financial Centre, which in 1980 felt the repercussions of the United States' anti-inflationary monetary policy on the Eurodollar markets, again began to behave dynamically, although without reaching the very high growth rates of previous years. According to information up to September, these deposits, which were the principal source of the resources handled, grew by 22% to over US\$ 23 billion,⁴ compared with a decline of 5% in 1980 (see table 13).

Investments, which had been affected in 1980 by the absolute decline in general resources, registered a growth rate in accordance with their historic trajectory (30%) in 1981.

⁴Strictly speaking, the corresponding figure is somewhat lower, because the consolidated balance includes the National Bank of Panama, but the importance of this State body is very small in relation to the overall banking activity.

Loans destined for the domestic market continued to represent —with slight variations— about 15% of total loans. During 1981 they expanded at a rate of 27% until September (last month for which detailed information is available), compared to 31% for external loans. The main demand for funds came from public sector bodies, with the expansion in loans directed to commerce and agriculture once again being most prominent. The rapid increase in the latter was related to the financing of the various government programmes. On the other hand, growth in bank credit to the industrial sector was very slow, while loans destined for personal consumption stayed at about the same rate as the previous year. There was substantial growth in loans to housing and construction activities (see table 14).

Up to the end of September, demand and time deposits by private individuals in banks had increased by 22% —much more than the growth in the gross domestic product in nominal terms (14%)— thus registering a performance similar to that of 1980. The much bigger increase in the past two years in savings and time deposits by private individuals, as compared to demand deposits, reflects the influence of the attractive interest rates in contrast to the fewer opportunities for investment. Moreover, the behaviour of individuals has been very sensitive to the high opportunity cost implied by the holding of liquid assets.

(b) *Fiscal policy*

Regular resources of the central government, which had increased considerably in 1980 (42%), showed a much lower growth rate of about 14% in 1981, in line with the evolution of overall economic activity. The sharp decline in the growth rate of income, without there being any changes in the fundamental lines of tax policy, is attributable less to the weakening in the growth rate of the real product and prices than to the fact that the rise in current income in 1980 was exceptionally high. In 1980 revenue was favoured by the application during a complete fiscal year of the new annual payments and Canal tariffs provided for under the Torrijos-Carter Treaty and

Table 14

PANAMA: LOANS GRANTED BY NATIONAL BANKING ENTITIES

	Year-end balances (millions of balboas)			Growth rates	
	1979	1980	1981 ^a	1980	1981 ^a
Total	13 042	15 277	18 894	17.1	30.3
Domestic loans	2 133	2 530	2 991	18.6	27.0
Public bodies	351	391	454	11.4	34.6
Financial and insurance enterprises	75	68	63	-9.4	11.4
Primary sector	146	163	193	11.6	21.9
Agriculture	56	66	76	18.3	22.6
Livestock	83	89	107	7.1	20.8
Fishing and mining	6	7	9	16.7	34.3
Commerce	752	953	1 223	26.7	33.6
Industry	214	265	278	23.9	11.6
Housing and other construction	488	563	639	15.5	22.3
Personal consumption	107	127	141	19.1	20.1
External loans	10 909	12 747	15 903	16.9	31.0
Percentage of domestic loans in relation to total	16.3	16.6	15.8		

Source: ECLA, on the basis of figures provided by the Statistics and Census Office.

^aBalances at end of September. Rates were calculated with respect to the balance in September 1980.

the introduction of a capital gains tax on profits from the sale of real estate.⁵ The most significant of the two factors was undoubtedly the first, especially because of the clause which provides that the State of Panama will receive 30 US cents per net ton transported through the Canal, and this may be seen clearly in the important role played by non-tax sources in total current income. The amount of income corresponding to "annual payments in respect of Canal" rose from US\$ 15 million in 1979 to US\$ 71 million in 1980 and US\$ 76 million in 1981.

As regards tax income, there was a great disparity in the relative variations in the level of direct and indirect taxes (24% and 6% respectively), with a substantial increase in income tax which came on top of the achievements registered in the immediately preceding years. It should be noted that this tax has been improving its elasticity since a system of advance payments based on the business results of the previous fiscal year was established in 1979. In addition, the strengthening of Educational Insurance (a contribution by employers and workers to support certain social services), along with the support provided by the recent capital gains tax, have tended to modify the tax structure and the actual amount of the fiscal burden. Thus, as from 1980 the yield from direct taxation has exceeded that of indirect taxation, and at the same time the tax burden has risen from 14% in 1979 to 15% in 1980 and 1981.

Apart from the greater equity which these indicators reflect in principle, the objective of making direct taxation more flexible has also been determined by the relative inertia of some sources of indirect taxes, and especially by the fact that in some cases it is becoming difficult to raise taxes without provoking negative effects on production and employment. This situation may be observed particularly in the case of the specific taxes on the consumption of gasoline and the production and sale of petroleum products, where in order to rationalize their use, and also to increase tax revenue, tariffs have been raised (especially in 1980) for products used in industry. Despite the rather low price elasticity which generally characterizes the demand for these products, the yield from these taxes decreased by nearly 10% in 1981. This loss of income, although consistent with the general objectives of allocation of resources, also indicates the contractive effect caused on marginal activities by the high cost of fuel and other products, and the country's productive system has been unable to absorb these activities very quickly in its current phase of lower growth rates.

The expansion of income from taxes on imports has also been very modest both in the case of that obtained by the application of sales taxes and that obtained from customs duties. This phenomenon is related, as in the case of other sources of taxation, to the slower rate of economic activity in 1981 compared with 1980, and to the external effect of this situation. It is also due to changes in the composition of external purchases, which were more focussed this year on intermediate goods, where the impact of the tax reduction policy, aimed at stimulating private investment, continued to be observed.

Along with the above, it should also be emphasized that the sales tax on domestic transactions (ITBM) continued to make a sizeable contribution to public finances, thus reflecting the maturation of administrative improvements made earlier, whose clearest effect has been to make it possible to increase the tax reaction capacity. This feature was also observed in the case of the tax on cigarette production, despite the extremely sensitive external competition in this sector.

To sum up, certain significant changes may be pointed out in the tax policy of the past two years: its apparently favourable impact from the point of view of the social distribution of the tax burden; the consolidation, as a means of securing revenue, of a tax which is neutral from the angle of the investment decisions of the private sector (the case of the ITBM); and the decrease in the relative importance of taxes which, by their structure, are less sensitive to current economic conditions. Here, however, as occurs with the tax on fuels, some undesirable secondary effects on production and employment begin to be noticeable.

⁵To determine the taxable amount, a credit of 10% is allowed against the cost, for each year that the good has been in the possession of the seller. In principle, the result is subject to income tax, except when there is reinvestment of profits in new construction for more than four times the result attained by the operation, in which case there is no tax on the profit (100% exemption). Reinvestment for an amount less than four times the result entitles the seller to an exemption of only 20%.

Although current income grew faster than regular expenditures (14% and 12% respectively), it did not prove possible to reduce the amount of dissavings of the central government. Expenditures grew, basically pressured by the very large debt servicing commitments and the high volume of transfers the Government was forced to make, sometimes to compensate for the deficit situation of certain productive enterprises of the State and sometimes to strengthen social programmes which could not be postponed. The employment and wage policy of the public sector continued to be applied with restrictive criteria. In the longer-term perspective, however, a positive element was the reduction of the current imbalance from 1980 onward, partly due, of course, to the new situation with respect to the appropriation of Canal profits, but also to a concern to increase the flexibility of the tax system and cautiously manage those current expenditures which permit some margin of manoeuvre (see table 15).

The situation of the public finances appears somewhat more disquieting when the overall picture of the budgetary implementation is examined (that is to say, including capital movements), since it is then observed that the fiscal deficit, which had been reduced in 1980, rose again in 1981 (by 15%) to approximately 35% of total expenditure and 11% of the global product. However, there were difficulties in containing capital expenditure, mainly due to the high cost of external credit and the payment of growing amortization payments, and it was also necessary to contain the real decline in government investment in 1980 in order to offset as far as possible a relatively low cycle of private accumulation. This latter consideration explains why real investment by the central government grew substantially in 1981 (58%) and was a contributing element to the increase in the deficit, though less significant when the budgetary implementation of the entire public sector is considered. Total public capital formation is estimated to have increased by 11% at current prices, which means that the rate of capital transfers from the central government to decentralized executive agencies decreased. The external financing situation and the real cost of

Table 15

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
1. Current income	397	490	695	790	23.4	41.8	13.7
Tax revenue	327	406	507	582	24.1	24.9	14.8
Direct	143	193	255	315	35.0	32.1	23.5
Indirect	184	213	252	267	15.8	18.3	5.9
On foreign trade	68	80	91	99	17.6	13.7	8.8
2. Current expenditure	464	612	766	861	31.9	25.2	12.4
Wages and salaries	225	264	297	298	17.3	12.5	0.3
Other current expenditure	239	348	469	563	45.6	34.8	20.0
3. Current saving (1 - 2)	-67	-122	-71	-71			
4. Capital expenditure	184	321	299	355	74.4	-6.9	18.7
Real investment	35	53	52	82	51.4	-1.9	57.7
Amortization of the debt	67	58	85	111	-13.4	46.5	30.6
Other capital expenditure	82	210	162	162	156.1	-22.9	-
5. Total expenditure (2 + 4)	648	933	1 065	1 216	44.0	14.1	14.2
6. Fiscal deficit (1 - 5)	-251	-443	-370	-426	76.5	-16.5	15.1
7. Financing of deficit	113	138	179	178	22.1	29.7	-0.6
Domestic financing	48	52	71	82	8.3	36.5	15.5
External financing	138	305	191	248	121.0	-37.4	29.8

Source: ECLA, on the basis of official figures.

^aPreliminary figures.

indebtedness were the principal limitations for exercising a regulatory function through effective demand and for adapting production to social needs. This situation was in contrast with that observed during most of the 1970s and in some ways reflected the characteristics of the public sector programmes and projects in this new phase of development.

The public investment programme showed the concern to promote the urban development of Panama as a contribution by the State to the greater efficiency of private activities. Thus, along with the high priority which continued to be assigned to the installation of hydroelectric capacity—especially as regards the execution of the Fortuna project—and the significant channelling of funds for the development of renewable natural resources, the programme contained a large component of works aimed at helping take greater advantage of the geographic position of the country. The most significant projects, in this respect, were the Arraiján-Panama City highway, the Container Terminal, the Convention Centre, and especially the expansion of the Colón Free Zone. This latter project, which was carried out in an area given back to Panama under the new Treaty, made it possible to take advantage of the geographical location and infrastructural facilities created in the past in relation to Canal activities. It includes the urbanization of 35 hectares of land for renting lots to private enterprises in order for them to construct warehouses for storage and re-export; the development of an industrial park in order to promote the establishment of light industries and export-oriented subcontracting firms,⁶ and the construction of a tourist trade centre which would be rented preferentially to businessmen from the city of Colón for the installation of shops devoted to the sale of products of interest to tourists, with facilities for shipping merchandise duty free.

Against this background, some variations are anticipated in the pattern of public investment for 1982, which appear to be determined by the need to avoid an excessive lag in the development of rural areas compared with that of the urban infrastructure and the growth prospects of the services area. Thus, it is planned to initiate a Community Investment Plan designed to meet the most urgent needs of certain communities in the interior of the country. Another important feature is the fact that the agricultural sector and housing will have proportionally greater budgetary allocations than they had in the past two years. In the agricultural sector there will be a trend towards greater emphasis on technological research, community development, identification of production potential for tropical export crops and the more efficient management of natural resources. In the case of housing, besides the social interest implicit in its development, specific anti-cyclical objectives will be pursued as regards employment, given the modest rate of private construction which will probably prevail in 1982.

⁶There is a plan to construct 13 industrial buildings with a surface area of 52 000 square metres to be rented to industries using the park. See Ministry of Planning and Economic Policy, *Programa de inversión pública*, 1981 and 1982.

PARAGUAY

1. Recent economic trends: Introduction and summary

On the basis of recent experience, but also in the light of relatively reliable information on the probable evolution of some key variables such as the outlays in connection with the binational projects (Itaipú and Yacyretá), the harvests of the main crops, the industrial sector's investment plans and the consolidated public sector budget, it was estimated at the end of 1980 that the gross domestic product at constant prices would grow by around 11% in 1981. It was therefore also anticipated that there would be a further notable reduction in the already very low rate of open unemployment. At the same time, it was expected that inflation would continue to slow down, as had been occurring in a marked and systematic manner since early 1980. This, together with the expected increase in the tightness of the labour market and the level of the average increases prevailing at that time in wage agreements, held out a good possibility that the real wages of the labour force would increase considerably. As regards the balance of payments, an overall surplus of around US\$ 160 million (similar to that registered during the last three years) was forecast. Such a surplus would once again have been very considerable in comparison with domestic demand and the degree of liquidity of the economy and would also reflect the substantial surplus expected on the capital account.

As in all the years since 1973, when the boom began, the main concern of the authorities as regards economic policy was the management of the significant flow of financial resources available. For this purpose, two powerful arms continued to be available: the ability to make a rapid and substantial increase in the volume of imports, and the rapid growth of productivity. It was expected that the inflationary impulses deriving, on the demand side, from the big inflow of foreign capital and the high growth rate of monetary income, and on the supply side from the high rate of increase in gross costs would be largely absorbed through bigger imports and an appreciable further increase in labour productivity. To all these advantages there was added, at the beginning of the year, the notable decline in inflation on the international market.

At the operational level, the authorities once again planned a level of monetary expansion which was quite modest in view of the prevailing rates of growth and inflation, the aim being to continue to reduce the growth rate of the cost of living and to limit somewhat the expansion of the current account deficit. In this connection, it was sought to offset the unwanted expansive effects of the expected growth in net foreign assets on the monetary base, mainly through a sharp increase in the capital and reserves of the Central Bank. In the area of fiscal policy, the objectives of stability were pursued through the small size of the deficit budgeted for the consolidated public sector for 1981 and the sure knowledge that its financing would not require the creation of domestic credit, in view of the availability of substantial surpluses from previous years. The objectives as regards growth, for their part, were based at the fiscal level on the considerable increase scheduled in the investment plans of the public sector.

In general, most of the results actually turned in by the economy in 1981 were not appreciably different from what had been foreseen. Thus, the gross domestic product grew by 8.5% instead of 11%; unemployment went down from 4% to about 2% of the labour force (at the end of June), and real wages (of manual workers in Asunción) increased by over 6%. On the other hand, the surplus of US\$ 44 million obtained on the balance of payments was only a quarter of the expected amount, while inflation speeded up. Rather than representing a true increase in the growth rate of the cost of living, however, this acceleration was due to transitory factors such as the adjustment in relative prices which accompanied the raising of the free market exchange rate. The backbone rate of inflation — the growth rate of wage costs — actually went down in 1981 (see table 1 and figure 1).

However, the evolution of the monetary aggregates and the financial situation of the public sector differed in many important respects and amounts from what had been planned. A noteworthy feature was the stagnation of the money supply of the economy and the big expansion in the fiscal deficit. Because of this and of the reduction in the growth rate of the level of activity, the sharp increase in the deficit on current account and the decline in the net inflow of capital, some corrections began to be made in the economic policy in the second half of the year.

As in previous years, the vigorous expansion of the product in 1981 reflected very similar increases in the output of goods, basic services and other services. At the sectoral level, the most outstanding increases were once again those registered in construction (16.2%), electricity, gas and water (13.8%) and crop farming production (8.7%). There was no sector where the level of activity did not increase by at least 7% except stock-raising (3.2%) and forestry (4.8%).

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at factor cost (millions of 1970 dollars)	1 126	1 205	1 358	1 506	1 667	1 857	2 015
Population (millions of inhabitants)	2.69	2.78	2.87	2.97	3.07	3.17	3.27
Per capita gross domestic product (1970 dollars)	419	433	473	507	543	586	616
Growth rates							
B. Short-run economic indicators							
Gross domestic product	6.3	7.0	12.7	10.9	10.7	11.4	8.5
Per capita gross domestic product	2.9	3.3	9.2	7.1	7.1	7.9	5.1
Gross domestic income ^b	5.3	7.4	15.4	9.8	9.9	10.5	8.7
Terms of trade (goods and services)	-9.2	3.8	20.2	-8.5	-5.7	-7.1	3.3
Current value of exports of goods and services	9.7	9.4	63.5	15.8	16.3	12.3	2.0
Current value of imports of goods and services	15.9	4.4	46.9	22.2	38.7	15.0	16.1
Consumer prices							
December - December	8.7	3.4	9.4	16.8	35.7	8.9	15.0
Variation between annual averages	6.7	4.5	9.4	10.6	28.2	22.4	13.0
Money (M ₁)	17.9	21.1	32.3	39.3	24.4	25.9	0.1
Wages and salaries ^c	-1.4	5.3	-4.6	3.5	-6.4	0.6	6.3
Rate of unemployment ^{d,e}	...	6.7	5.4	4.1	5.9	3.9	2.2
Current income of central government	10.0	7.5	37.1	30.2	27.1	18.3	14.6
Total expenditure of central government	31.2	16.3	13.1	32.0	23.6	30.4	14.5
Fiscal situation/total expenditure of government ^f	-3.6	-14.8	2.2	11.6	7.4	-2.6	-25.1
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-55	-46	-26	-57	-185	-228	-304
Balance on current account	-85	-72	-59	-118	-210	-283	-387
Variation in international reserves	28	43	112	179	165	153	44
Disbursed gross external debt ^g	332	456	518	669	733	861	949
Disbursed net external debt ^h	304	380	346	339	253	228	282

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cReal wages of manual workers in Greater Asunción.

^dAnnual average rate in Greater Asunción.

^ePercentage.

^fMedium and long-term public and State-guaranteed private debt.

^gDisbursed gross external debt, less holdings of net foreign assets in the economy.

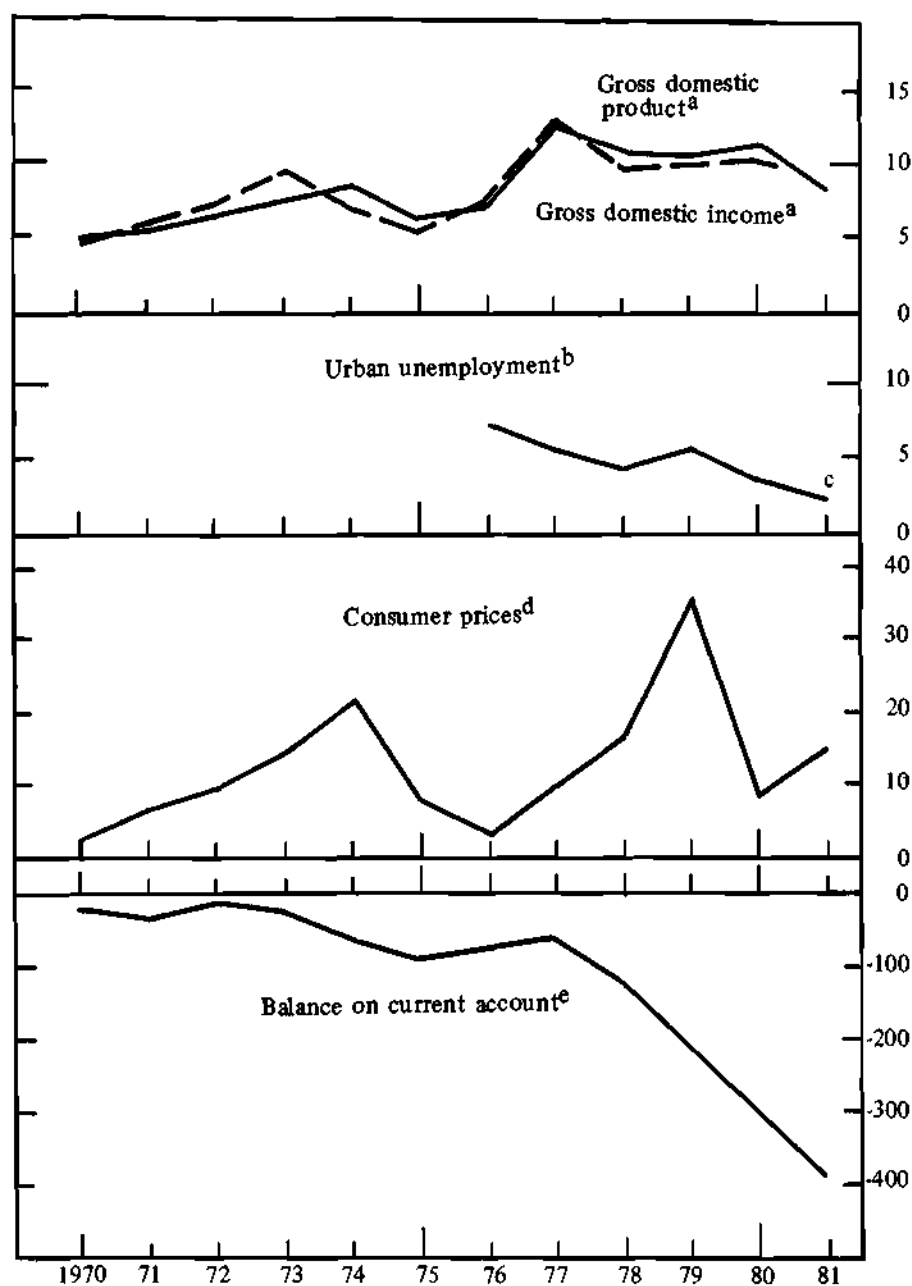
The increase in production was accompanied by a considerable further drop in the rate of open unemployment, which stood at only a little over 2% of the labour force at the end of June in Greater Asunción. With this evolution, the economy completed the absorption of virtually all the labour force which was unemployed (12%) at the beginning of the present growth cycle, the rate of expansion of the supply of labour being estimated at 3.3% per year for this period. Inflation, for its part, evolved erratically in 1981. Thus, in the first months of the year there was a marked acceleration, with the rate rising from a monthly variation of 0.3% in December to 5.2% and 4.9% in January and February, respectively, according to the consumer price index. Subsequently, there was a very marked turnaround, since between February and July the level of prices actually dropped. This downward trend was reversed, however, as from August, and in the last quarter of the year monthly variations of the order of 2% were recorded. Consequently, the total rise in the level of prices during the year came to 15%, compared with 9% the year before. The resurgence in the rate of inflation was due mainly to the drop in the production of crops for the domestic market and the sudden rise in the exchange rate on the parallel market as from June. The growth rate of backbone inflation actually went down in 1981, after having risen during the previous three years, this being due to the notable slackening in wage increases, especially in the second half of the year. Also in contrast with previous years, the evolution of both external prices and the monetary aggregates helped to moderate the rise in the general level of domestic prices.

As regards the evolution of wages and salaries, the strong pressure on the labour market, together with an increase equivalent to 15% of the legal minimum wage decreed on 1 May for all private sector wages and salaries, resulted for the third year running in an average annual increase of 20% in the average nominal wage of manual workers in Asunción and an increase of 12% in the average nominal wages of agricultural workers. Furthermore, although inflation speeded up in terms of the December-December figures, in terms of the variation between annual averages it went down very considerably from over 22% in 1980 to 13% in 1981. Consequently, the size of the increase in the average nominal wage of manual workers in the capital meant a significant improvement in their real wages. In the case of agricultural workers, however, the reduction in the annual average rate of inflation was not sufficient to offset the smaller rise in their nominal wages.

Since its growth rate began to speed up in 1973, the expansion of the economy has been propelled, on the supply side, mainly by the consolidation and intensive expansion of the agricultural frontier. Another important influence was the large and sustained increase in imports up to 1980. On the demand side, its dynamism has originated mainly in the domestic market, and particularly in investment in construction. In financing the acceleration of growth, in contrast, the external sector has played a decisive role. In 1981 the expansion of economic activity continued to be based mainly on these factors. Thus, according to preliminary data the cultivated area was expanded by over 7%, which is a similar rate to that registered in previous years and is sufficient alone to account for around 90% of the growth in agricultural production. This, together with the increase in forestry activities (whose growth is intimately linked with the expansion of the agricultural frontier) and in stock-raising, directly accounted for 25% of the increase in the global product. Imports once again grew much less strongly than in the 1970s, however, and this, together with the reduction in the growth rate of exports, weakened the dynamism of the trade sector, which is the largest in the economy. This was one factor in the slowing down of the overall growth rate of the economy; the other was the marked reduction, likewise for the second consecutive year, in the growth rate of investment, which declined from almost 16% in 1980 to a little over 9% in 1981. This was due both to a reduction in absolute terms in investment in machinery and equipment and to the slackening in the growth rate of investment in construction. Both results are closely connected with the termination of the construction stage of the Itaipú project and the lower level of activity than had been expected on the Yacyretá project, as well as the unusually sharp rise in domestic interest rates.

At all events, investment in construction continued to be a key source of growth, since its expansion in 1981 was equivalent to 38% of the increase in the product. As regards the financing of investment, the contribution made by external savings once again increased appreciably in 1981, according to official statistics.

Figure 1
PARAGUAY: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAnnual average growth rate in Greater Asunción.

^cFirst half of year.

^dPercentage variation, December - December.

^eMillions of dollars.

Thus, in 1981 the current account deficit expanded more than domestic investment for the fifth consecutive year. This result reflected not only the slowing down of investment but also the considerable decrease in the volume of registered exports—which fell below the level already reached in 1978—and the increase in net factor payments. The sharp increase in the external gap, together with a decrease in the net inflow of capital after eight years of intensive growth, gave rise to a considerable reduction in the balance-of-payments surplus. The international reserves hardly grew at all in real terms, and they went down slightly in relation to the inflow of imports of goods and services. The gross disbursed external debt, for its part, increased by a little over 10%, although in relation to the gross domestic product it went down for the third consecutive year. In contrast, net external indebtedness increased for the first time in four years, essentially because of the smaller accumulation of reserves. Even so, however, it barely represented more than 4% of the gross domestic product at the end of 1981.¹

The evolution of registered external trade in 1981 was affected mainly by the significant increase in the exchange rate on the parallel market and the considerable deterioration in the effective real fixed official exchange rate due to the fluctuations between the currencies of the various countries with which Paraguay trades and the maintenance of the nominal dollar parity of the official guaraní. These exchange rate movements discouraged the export trade and stimulated imports in the areas where the official exchange rate prevails. Another factor in the lower growth rate of the value of exports was the decline in sales to the binational bodies.

The net inflow registered on the capital account, for its part, was depressed by the marked rise in interest rates abroad and the corresponding exchange instability on international, regional and domestic markets, which encouraged the outflow of private capital and discouraged domestic demand for external credits. Another factor which helped to reduce the surplus on the capital account was the smaller inflow of capital from Itaipú and Yacyretá.

In the light of the adverse evolution of external events and their domestic repercussions, the forecasts made at the end of the previous year when formulating the fiscal and monetary policies naturally began to show increasing disparities with reality, especially from the second half of the year onwards. Thus, the public sector deficit, and that of the central government in particular, reached a much higher level than that budgeted, due mainly to larger expenditure but also to the smaller tax receipts, while the money supply did not grow at all, although an increase of the order of 20% had been programmed. This result was due mainly to the weak evolution of net foreign assets, but it was also considerably influenced by a very large and completely unexpected reduction in the demand for money.

Rather than generating inflationary pressures or leading to excessive appropriation of domestic credit, however, the deficit expenditure had essentially beneficial effects, since it helped to keep up the growth rate of global demand both directly and indirectly, partly compensating for the depressive effects of the stagnation in the net inflow of capital on the growth of the monetary base and the money supply, and it ultimately moderated the rise in domestic interest rates. Moreover, it should be emphasized that the acute limitation of the growth in the means of payment was not accompanied by a comparable reduction in the growth rate of the economy or of inflation. This was due, on the one hand, to the existence of an adequate supply of credit and the notable reduction in the marginal demand for money, and on the other to the adjustment of relative prices because of the rise in the free market exchange rate.

In reality, the good performance turned in by the economy as regards the growth of the product and employment and the fact that inflation remained at a relatively low rate were powerful arguments against making any major changes in economic policy, despite the unexpected expansion of the fiscal deficit and the stagnation of the money supply. The exchange instability, the reduction in the growth rate of the value of exports, and the considerable increase in the current account deficit, in contrast, suggested the desirability of making rather larger changes in the external trade policies.

¹The external debt statistics do not include the debts of the binational bodies.

At all events, towards the middle of the year measures began to be taken to reduce the effects of the international recession. Briefly, in the area of trade policy the exchange rate was changed for many exports and imports; in monetary policy, the compulsory legal reserves in respect of time deposits were reduced and the interest rates were raised on deposits, including time deposits; and in the fiscal area a number of laws and decrees were adopted in mid-year to increase the yield of the tax system. It was also decided to reduce considerably the growth rate of expenditure in the coming financial year.

These adjustments in trade, monetary and fiscal policies did not show any very significant effects in 1981, either because they only came into effect towards the end of the year or because they were of relatively marginal impact. Furthermore, the effects of the international recession on the dynamism of the economy had not shown themselves in 1981 in their full magnitude.

2. Trends in economic activity

(a) *The product and income*

Despite the stagnation of the world economy and the depression of economic activity in some of its main external markets, the Paraguayan economy once again grew at a very high rate in 1981, since the gross domestic product rose by 8.5%² (see table 2). Although this figure was lower than

Table 2
PARAGUAY: SOME FIGURES ON THE PRODUCT,
INCOME AND EXPENDITURE
(Millions of dollars at constant 1970 prices)^a

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^b
Gross domestic product at market prices	985	1 055	1 141	1 214	1 300	1 466	1 625	1 799	2 004	2 175
Indirect taxes, less subsidies	73	77	83	88	95	108	119	132	147	160
Gross domestic product at factor cost	912	978	1 059	1 126	1 205	1 358	1 506	1 667	1 857	2 015
Net imports of goods and services	4	36	37	33	35	58	62	100	91	116
Net factor payments to rest of world	8	8	10	15	14	16	28	10	19	27
Terms-of-trade effect	5	28	16	6	11	45	35	26	13	17
Gross domestic expenditures	916	1 014	1 096	1 059	1 240	1 416	1 568	1 767	1 948	2 131
Gross national product	914	970	1 049	1 111	1 191	1 342	1 478	1 657	1 838	1 988
Gross national income	913	998	1 065	1 117	1 202	1 387	1 513	1 683	1 851	2 005

Source: ECLA, on the basis of official data.

^aAt parity exchange rate.

^bPreliminary figures.

²The gross domestic product at market prices or at factor cost grew at the same rate in each of the years shown in table 2.

³The small amount of difference between these two variables, and also the way they have evolved in Paraguay, represent an exceptional situation in Latin America and in Third World countries in general. This is mainly due to the fact that the net external debt—that is to say, the gross external debt less the gross international reserves—is very small. Thus, in 1980 the net external debt (medium and long-term) was only a little over US\$ 100 million, so that it continued by a very big margin to be the lowest in the region both in absolute terms and in relative terms with respect to the gross domestic product. In the same year, interest paid to the exterior came to US\$ 81 million while interest received from the exterior came to US\$ 77 million. This situation has also been influenced by the fact that direct foreign investment has played a secondary role in this stage of the country's growth. In 1980, for example, remittances of profits abroad were equivalent to less than 1% of the gross domestic product, which is likewise an extremely low proportion in the regional context.

Table 3
PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Total supply	1 872	2 092	2 292	2 473	11.8	11.7	9.6	7.9
Gross domestic product at market prices	1 625	1 799	2 004	2 175	10.9	10.7	11.4	8.5
Imports of goods and services ^b	247	293	288	298	18.3	18.5	-1.5	3.5
Total demand	1 872	2 092	2 292	2 473	11.8	11.7	9.6	7.9
Domestic demand	1 687	1 900	2 095	2 290	10.7	12.6	10.3	9.3
Gross domestic investment	496	597	690	754	21.6	20.3	15.6	9.3
Total consumption	1 191	1 303	1 405	1 536	6.7	9.4	7.9	9.3
General government	105	111	120	130	19.0	6.2	8.0	8.4
Private	1 086	1 192	1 285	1 406	5.7	9.7	7.8	9.4
Exports of goods and services ^a	185	192	197	182	22.4	4.1	2.5	-7.6

Source: ECLA, on the basis of figures supplied by the Central Bank of Paraguay.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by ECLA for the purpose.

the average rate of expansion registered in the previous four years—when the product grew at the exceptionally high average rate of 11.4% per year—it was close to the 9.2% registered over the period of rapid growth of the economy which began in 1973.

The gross national product, for its part, increased very nearly as fast as the gross domestic product, in spite of the very high interest rates prevailing on international markets.³ The growth rate of gross national income was also close to that of the gross domestic product, thanks to the reversal of the downward trend in the terms of trade registered in the previous three years.

(b) *Supply and demand*

The growth rate of total supply continued to fall in 1981. Thus, after registering average growth of over 11% per year in the period 1975-1979, total supply grew by only 9.6% in 1980 and by only 8% in 1981. In contrast with what had happened the year before, however, the decline in the growth rate of total supply in 1981 was due to the slackening of the growth of the gross domestic product (see table 3).

On the demand side, the growth of the product was propelled, as in the previous two years, by the expansion in domestic demand, which rose by a little over 9% whereas the volume of exports of goods and services went down by a little over 7%. In 1981, however, there was an important change in the relative weights of the expansion of investment and of consumption in the growth process, since the growth rate of gross fixed investment went down markedly from 15.6% in 1980 to a little over 9% in 1981 (in the previous four years it had averaged around 22%). The growth rate of consumption, for its part, rose from 8% in 1980 to over 9% in 1981, this variation being due mainly to the higher growth rate of private consumption (see table 3).

The expansion of domestic demand, for its part, which was somewhat smaller than in the previous two years, was due in 1981 mainly to the increase in domestic income and, in particular, the appreciable increase in real wages after their reduction in the previous two years, plus the big expansion in employment. Furthermore, unlike what had happened in the past, in 1981 the growth in the means of payment was not a factor which helped to activate domestic demand. On the contrary, in 1981 M_1 grew by barely 0.1% in nominal terms, whereas in the previous four years it had grown by around 30% per year. The expansion in domestic credit came to the moderate figure of approximately 18%, but net foreign assets increased very slowly, whereas savings and

time deposits grew sharply in response to the rise in interest rates. The latter, in turn, were an important factor in slowing down the increase in investment. Fiscal policy, for its part, helped to keep a high growth rate of domestic demand and especially of consumption, since the planned level of expenditure was appreciably exceeded in spite of the fact that revenue was lower than budgeted.

Side by side with the process of intensive growth which has taken place in Paraguay in the last 10 years, there have been important changes in the structure of supply and demand (see table 4). Particular note should be taken of the great effort of accumulation, which rose from the equivalent of less than 17% of the product in 1972 to 22% in 1975 and 30.5% in 1978, reaching almost 35% in 1981. Also worthy of note is the evolution of private consumption, which dropped from the equivalent of over 76% of the product in 1972 to less than 65% in 1981, even though it grew at an average annual rate of 8% over this period. Another feature worthy of close attention is the pattern of evolution of the share of imports and exports in supply and demand, particularly noteworthy being the performance of exports, which were equivalent to a smaller proportion of the gross domestic product at the end of the period than at the beginning (see table 4).

(c) *Investment and saving*

As in the previous year, the increase in investment reflected exclusively the expansion in gross fixed investment in construction, for investment in machinery and equipment went down by 5% after having stagnated in 1980. In 1981, gross fixed investment expenditure on construction came to the exceptional proportion of 21.7% of the gross domestic product. In 1973, before the construction of Itaipú was begun, the corresponding figure was a little over 8%. Investment in machinery and equipment, for its part, was equivalent to 11.2% of the gross domestic product, its peak in relative terms having been reached in 1977, when it was equivalent to 14% of the product (see table 5).

In addition to the depressive effect of the pronounced rise in real interest rates, the slowing down of the growth rate of investment was due partly to the approach of the final stages of the construction of Itaipú and a lower level of activity than foreseen in the works at Yacyretá.

Table 4
PARAGUAY: STRUCTURE OF TOTAL SUPPLY AND DEMAND
(As a percentage of the gross domestic product)^a

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^b
Total supply	109.6	112.2	112.0	111.6	111.7	114.2	115.2	116.3	114.4	113.7
Gross domestic product at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports of goods and services ^c	9.6	12.2	12.0	11.6	11.7	14.2	15.2	16.3	14.4	13.9
Total demand	109.6	112.2	112.0	111.6	111.7	114.2	115.2	116.3	114.4	113.7
Domestic demand	100.5	103.4	103.2	102.8	102.7	103.9	103.8	105.6	104.5	105.4
Gross domestic investment	16.6	21.3	22.0	22.1	25.4	27.8	30.5	33.2	34.4	34.7
Total consumption	83.9	82.1	81.2	80.7	77.3	76.1	73.3	72.4	70.1	70.7
General government	7.5	6.3	5.3	6.1	6.1	6.0	6.4	6.2	6.0	6.0
Private	76.4	75.8	75.9	74.6	71.2	70.1	66.9	66.2	64.1	64.7
Exports of goods and services ^c	9.2	8.8	8.8	8.9	9.1	10.3	11.4	10.7	9.8	8.4
Terms-of-trade effect	0.5	2.7	1.4	0.5	0.8	3.1	2.2	1.5	0.6	0.8

Source: ECLA, on the basis of figures supplied by the Central Bank of Paraguay.

^a At market prices in constant 1970 dollars, using the parity exchange rate.

^b Preliminary figures.

^c The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by ECLA for the purpose.

Table 5

**PARAGUAY: COMPOSITION, ORIGIN AND FINANCING OF
GROSS DOMESTIC INVESTMENT**

(As a percentage of the gross domestic product)^a

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^b
Gross domestic investment	16.6	21.3	22.0	22.1	25.4	27.8	30.5	33.2	34.4	34.7
Origin										
Private sector	11.5	16.6	18.6	17.2	16.3	18.9	22.5	26.2	27.7	27.4
Public sector	5.1	4.7	3.4	4.9	9.1	8.9	8.0	7.0	6.7	7.3
Composition										
Construction	7.6	8.3	8.7	10.0	11.0	12.8	15.1	17.8	20.2	21.7
Machinery and equipment	8.0	11.2	11.5	9.7	12.3	14.1	13.7	13.9	12.8	11.2
Changes in stocks	1.0	1.8	1.8	2.4	2.1	0.9	1.7	1.5	1.4	1.8
Financing										
Gross domestic saving	16.1	17.9	18.8	19.4	22.7	23.9	26.7	27.6	29.9	29.4
Net factor payments to rest of world ^c	0.8	0.8	0.9	1.3	1.0	1.1	1.8	0.6	0.9	1.3
Terms-of-trade effect	0.5	2.7	1.4	0.5	0.8	3.1	2.2	1.5	0.6	0.8
Gross national saving	15.8	19.8	19.3	18.6	22.5	25.9	27.1	28.5	29.6	28.9
Private sector	14.5	15.1	14.6	15.2	19.0	20.5	20.5	21.2	24.4	25.8
Public sector	1.3	4.7	4.7	3.4	3.5	5.4	6.6	7.3	5.2	3.1
External saving	0.8	1.5	2.7	3.5	2.9	1.9	3.4	4.7	4.8	5.8

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay and the Ministry of Planning.

^aAt market prices in constant 1970 dollars at the parity exchange rate.

^bPreliminary figures.

^cIncluding private non-compensatory transfer payments.

In 1981, public investment grew more than private investment, in contrast with what had happened in the previous four years. Nevertheless, in the last five years public sector gross fixed investment expenditure has gone down from the equivalent of 9% of the product to 7.3%, after having markedly increased in the previous four years. In contrast, private investment rose from the equivalent of 16% of the product in 1976 to over 27% in 1981.

Gross domestic saving, for its part, continued to grow at a rapid rate, but for the first time in a decade it did not increase faster than the gross domestic product, for it amounted to the equivalent of 29.4% of the product in 1981, compared with almost 30% the year before. In 1972, the corresponding proportion was 16%. Over this period, both the amount and the growth rate of gross national saving have been very similar to those of domestic saving, since net factor service payments have been more or less compensated for by the gains obtained through the very favourable evolution of relative international prices (see table 5).

(d) Sectoral evolution of the product

(i) *Introduction.* The extraordinary expansion of Paraguay's economic activity from 1972 onwards has been propelled by relatively balanced growth in the production of goods, basic services and other services, and even at a more disaggregated level the expansion of the various sectors has been not only generalized but also quite balanced. The exceptions to this are electricity and construction, which have grown much faster than the rest of the economy. This general pattern of expansion was continued in 1981, when the production of both goods and other services increased by close to 9%, while that of basic services grew by 10%. The construction product increased by 16%, while that of electricity, gas and water rose by almost 14%. All the other sectors

increased their activity by amounts varying between approximately 7% and 9%, except in the case of mining and quarrying, whose weight in the economy is only slight (see table 6).

(ii) *Agriculture*. As in previous years, agricultural activity expanded more slowly than that of the economy as a whole, even though it led the region in growth. In 1981, crop farming maintained its extraordinary dynamism, since it increased its production by over 8%, thus once again coming close to the average rate of expansion of the rest of the economy and doubling the level of production of only nine years before. Stock-raising, for its part, grew by 3.2%, which is a little below the growth rates achieved in recent years and considerably below the average registered between 1972 and 1980. The growth rate of forestry also went down, in this case by a larger amount, for after increasing by 11.4% per year in the previous three years (and by 7.9% in the period 1972-1980), its product grew by a little under 5% in 1981 (see table 7).

As in the past, the expansion of crop farming was propelled by the increased output of products for the external market.⁴ Altogether, the value of the output of these crops grew by 17% at constant prices: the same amount as the year before and similar to the performance registered since the beginning of the previous decade. This performance was once again decisively influenced by soya beans and cotton, despite the unfavourable evolution of their respective prices, which went down by 3% and 9%. The volume of production of both soya beans and cotton increased by around

Table 6

PARAGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COSTS

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	1 667	1 857	2 015	100.0	100.0	10.7	11.4	8.5
Goods	921	1 038	1 128	54.7	55.0	9.9	12.6	8.7
Agriculture, hunting, forestry, and fishing	519	567	605	34.6	29.5	6.7	9.2	6.7
Mining and quarrying	9	12	14	0.2	0.7	42.1	26.0	15.0
Manufacturing	271	305	330	16.7	16.1	7.7	12.6	8.0
Construction	122	154	179	3.2	8.7	30.0	26.0	16.2
Basic services	122	137	151	5.6	7.4	13.9	13.1	10.1
Electricity, gas and water	42	49	56	1.4	2.8	18.9	18.6	13.8
Transports, storage and communications	80	88	95	4.2	4.6	11.5	10.5	8.0
Other services	644	711	772	39.7	37.6	12.2	10.1	8.6
Commerce (wholesale and retail), restaurants and hotels ^c	339	375	406	19.6	19.8	12.5	10.5	8.5
Ownership of dwellings	49	54	58	3.2	2.8	10.5	9.0	8.0
Community, social and personal services ^d	256	282	308	16.9	15.0	12.2	9.9	9.3
Government services	66	70	75	5.4	3.7	9.9	7.0	7.0

Source: ECLA, on the basis of figures supplied by the Central Bank of Paraguay.

^a Preliminary figures.

^b As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^c Includes financial institutions, insurance and real estate, except ownership of dwellings.

^d Include restaurants and hotels.

⁴ The figures on the value and output of these crops do not refer to the value and volume of exports, but to those of total production.

Table 7

PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of guaraníes at 1977 prices					Growth rates				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Crop farming	53.3	63.0	67.1	74.2	80.3	15.6	6.2	6.5	10.6	8.2
Domestic consumption	36.5	35.6	38.7	40.5	40.1	7.1	-2.7	8.9	4.5	-0.7
Exports	22.8	27.4	28.4	33.7	40.1	32.4	20.4	3.4	19.0	18.9
Stock-raising	21.8	22.6	23.5	24.4	25.2	1.3	3.8	4.0	4.0	3.2
Forestry	8.6	9.3	10.4	11.9	12.4	9.0	7.9	14.0	12.3	4.8
Total ^a	89.9	95.2	101.6	111.0	118.4	11.1	5.9	6.7	9.2	6.7
Thousands of tons										
Production of the main crops										
Cotton	222	285	230	235	317	111.8	28.0	-19.2	2.2	34.9
Sweet potatoes	197	187	192	207	213	5.0	-5.0	3.0	7.9	3.0
Maize	372	368	405	506	496	8.1	-1.0	10.0	24.8	-2.0
Cassava	1 752	1 734	1 787	1 823	1 841	1.0	-1.0	3.1	2.0	1.0
Soya beans	350	330	450	650	880	25.0	-5.7	36.4	44.4	35.4
Sugar cane	1 600	2 053	1 964	2 357	2 121	11.1	28.3	-4.3	20.0	-10.0
Cocoa	237	225	236	248	243	15.0	-5.0	5.0	5.0	-3.0
Tung	138	96	106	95	100	5.0	-30.0	10.0	-10.0	5.0
Cattle slaughtering ^b	635	596	578	565	554	18.2	-6.1	-3.1	-2.1	-2.0
Pig slaughtering ^b	1 032	1 130	1 291	1 420	1 560	5.4	9.5	14.2	10.0	9.9
Poultry slaughtering ^b	1 806	1 978	2 281	2 438	2 603	7.5	9.5	15.3	6.9	6.8
Roundwood	931	1 110	1 420	1 780	1 791	15.0	19.2	28.0	25.3	0.6
Firewood	2 415	2 605	2 661	2 709	2 800	1.0	7.9	2.1	1.8	3.4

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay.

^aIncluding hunting and fishing.

^bThousands of head.

35%, and between 1972 and 1981 the physical output of these two crops has increased by factors of 8.8 and 7.8, respectively. Production figures for the other crops which are traded in important amounts abroad gave uneven results. Thus, for example, coconuts went down by 2%, castor oil seeds and peanuts remained more or less unchanged, tung increased by 5% and coffee by 14%.

As regards crops which are consumed mainly on the domestic market, there was a slight decline in the total value of their harvests in 1981, after two years of very favourable results. This decline mainly reflected the considerable drop in the sugar cane harvest, but several crops, including for example bananas (-10%), onions (-5%), alfalfa (-3%) and maize (-2%), had smaller harvests in 1981. On the other hand, very high growth rates were registered for certain agricultural products sold locally, such as wheat (26.4%) and sunflower (35%), which were not produced in the country five years ago. A considerable influence in the reduction of output of foodstuffs for local consumption was the bad weather, for the drought in the first half of the year adversely affected the sugar cane harvest, while the frosts in July, which (together with those of 1975) were the severest recorded in the history of the country, did much damage to the maize, sugar cane, vegetable and banana crops.

The small decline in the growth rate of stock-raising activity compared with previous years was due to slight drops in the growth rates of several of the main branches. On the other hand, as in recent years, the expansion of this subsector continued in spite of the persistence of the crisis in cattle-raising activity, thanks to a substantial process of diversification to more profitable activities such as the raising of pigs and poultry and the production of eggs, milk and honey.

The noteworthy drop in the growth rate of the forestry subsector was due almost exclusively to the stagnation in the production of roundwood for industrial use, since the other branches grew at similar rates to those of the previous year.

On the supply side, the dynamism of Paraguayan agriculture originally stemmed from and has since been sustained by the vigorous expansion of the agricultural frontier. This process has been promoted by heavy migration from the traditional area of settlement of the population in the so-called minifundio zone around Asunción to the periphery of the eastern region and also by large-scale immigration of settlers from Brazil and other countries to frontier areas.

Since 1963, when the Agrarian Statute was promulgated and the Rural Welfare Institute (IBR) was set up, agricultural policy —supported by the extension of infrastructure and basic services— has promoted and facilitated the resettlement of the rural population, although in the 1970s the settlement and opening up of the agricultural frontier had a rather spontaneous character.

In addition, the expansion of the cultivated area was encouraged for many years by the very favourable evolution of the international prices of crops which are highly suited to the soil and climatic conditions of the areas of new settlement. More recently, however, the behaviour of the international prices in question has been much less favourable, although the sustained increase in output in recent years gives grounds for assuming that such crops as soya beans and cotton continue to give substantial profits.

As regards settlement, the IBR issued preliminary title deeds in respect of 4 316 agricultural units with a total area of 473 267 hectares. It also delivered 4 054 final title deeds in respect of an area of 728 885 hectares. Of this total, 3 338 title deeds in respect of an area of 720 203 hectares corresponded to purchase transactions, while the remainder were issued free of charge. With these issues, almost 72 000 final title deeds have been delivered since 1963 in respect of an area of over 5 million hectares. These figures corresponded to approximately 23% of the families economically active in the agricultural sector in 1980 and approximately 26% of the cultivated land and pastures in the same year.⁵

(iii) *Manufacturing.* According to a preliminary estimate, manufacturing expanded by 8%, which although a good deal lower than the 12.6% recorded the year before was nevertheless similar to the average growth rate (8.6%) observed since 1972. Although statistics on production by subsectors in 1981 are not available, some data on the physical output of certain main manufactures suggest that there was substantial growth in two of the most important subsectors. Thus, in the foodstuffs, beverages and tobacco subsector the physical output of sugar went down by 14% but that of wheat flour increased by 23%, that of soft drinks by 25%, and that of cigarettes by 17%, while in the textiles, clothing and leather products subsector, although there was a 4% decline in the output of cotton textiles there was significant expansion in the production of cotton fibres (see table 8).

During the year, 213 investment projects were accepted for the fiscal and tariff benefits given by law No. 550 on the promotion of investments. These projects envisaged investments totalling 27.4 million guaraníes, compared with the total of 26.3 million guaraníes for 248 projects originally committed the year before. As regards the level of gross domestic fixed capital investment, the investments committed in 1981 were equivalent to around 14% of the total gross domestic fixed capital investment in that year. The year before the corresponding proportion had been 17%. Moreover, 78% of the value of the investments accepted for benefits in 1981 was scheduled to be made in the interior of the country, that is to say, outside Asunción. Over 10.5 million out of the total of 26.3 million corresponds to two projects of the National Cement

⁵See Rural Welfare Institute, *Memoria* (various issues); CELADE; and Ministry of Agriculture, Department of Censuses. It should be noted that the title deeds issued include some properties which are not used for agricultural activities, but these are only a small fraction of the total. It should also be borne in mind that the total area of land occupied by the agricultural units is greater than the area actually devoted to crops and pastures. When the results of the 1981 Agricultural Census become available, it will naturally be possible to make a better appraisal of the repercussions of the agrarian reform and settlement policy on the agrarian structure and agricultural development of the country.

Table 8

PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Percentage breakdown		Growth rates			
					1972	1980	1978	1979	1980	1981 ^a
Gross manufacturing product (millions of guaraníes at 1977 prices)	49.4	53.2	59.9	64.7	100.0	100.0	9.8	7.7	12.6	8.0
Foodstuffs, beverages and tobacco	18.7	19.3	20.1	...	48.7	34.8	-3.6	3.5	4.2	...
Textiles, clothing and leather	9.6	8.4	8.4	...	16.0	14.5	12.7	-13.0	-0.1	...
Wood and furniture	4.6	7.5	10.8	...	7.1	18.7	18.7	63.0	44.2	...
Paper and printing	1.0	1.8	2.3	...	2.4	4.0	4.5	74.0	28.3	...
Chemicals	7.7	8.0	8.8	...	14.0	15.2	16.7	3.3	10.1	...
Minerals	1.7	1.7	2.1	...	2.9	3.7	-8.8	-	22.3	...
Basic metals	-	0.1	0.1	...	0.1	0.2	-23.5	113.6	59.3	...
Metal products, machinery and equipment	1.4	1.5	1.5	...	3.4	2.7	-4.3	5.6	1.6	...
Other manufacturing industries	0.2	0.2	0.2	...	0.3	0.4	12.8	31.0	20.4	...
Artisanal production	4.4	4.7	5.5	...	5.0	9.5	46.2	7.4	17.1	...
Output of some of the main manufactures (thousands of tons)										
Cotton cloth	20.8	20.3	16.6	15.9			2.5	-2.4	-18.0	-4.0
Cotton fibres	90.7	73.3	74.9	105.9			24.6	-19.2	2.0	41.0
Tannin	17.4	6.7	15.7	13.2			32.8	-61.5	134.0	-16.0
Cocoa beans	38.9	37.8	49.1	57.1			11.1	-2.8	30.0	16.0
Tung oil	11.9	11.2	10.2	12.1			-37.7	-5.9	-9.0	19.0
Cement	167.0	154.5	176.7	161.4			-16.4	-7.5	14.0	-0.9
Cigarettes	40.9	40.4	32.4	37.8			3.8	-1.2	-20.0	17.0
Soft drinks	96.5	111.0	116.1	145.7			78.0	15.0	5.0	25.0
Wheat flour	84.6	82.3	81.8	100.7			43.1	-2.7	-1.0	23.0
Sugar	68.7	68.5	89.2	76.5			-11.0	-0.3	30.0	-14.0
Leather	13.8	9.4	9.0	9.5			-6.1	-31.9	-4.0	6.0
Canned meat	11.2	0.3	-	-			-6.7	-97.3	-	-

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay.

^aPreliminary figures.

Industry. One of them involves the modernization and expansion of the existing plant, while the other refers to the installation of a new plant. In the first case, the present plant will be turned over from the wet system of production to the dry system, and its installed capacity will be expanded from 200 000 tons per year to 480 000 tons. In the second case, a plant with a production capacity of 600 tons will be built. On completion of these projects, the total production capacity of the country will have increased fivefold.

Another project, which is already operating, is that for the production of absolute alcohol. At the end of 1980, the production of absolute alcohol began in the first of six factories to be constructed in line with the national plan for fuel substitution. Production of a 5% blend with gasoline began in March, with the proportion rising by the end of the year to 12%. It is planned to arrive finally at a blend of 20% of alcohol with 80% of gasoline.

(iv) *Construction*. In 1981, the growth rate of construction went down markedly, for after growing at a rate of almost 30% per year in the five-year period 1976-1980, the product of the sector increased by only a little over 16% in 1981 (see table 6).

The smaller growth of construction reflected the slowing down of the growth rate of construction activity on the Itaipú project. At the same time, there was a decline in the growth rate of the demand for housing, because of the sharp rise in interest rates. Even so, this sector continued to be the most dynamic, since in addition to the work still being carried on at Itaipú there was an increase —although to a lesser extent than planned— in the rate of execution of the ancillary works for the Yacyretá hydroelectric plant, including the great bridge which will provide the first-ever land link between Paraguay and Argentina at the level of Encarnación and Posadas. In addition, work was stepped up on a number of road projects in various regions of the country, such as the Trans-Chaco highway and Route No. 6, which will link Puerto Stroessner (Itaipú) and Encarnación (Yacyretá), thus opening up to settlement an extensive and fertile region which has so far been little exploited.

(v) *Basic services.* In 1981, the total product of basic services increased by 10%, compared with growth of 13% in 1980 and 14% in 1979. Both electricity, gas and water production and transport, storage and communications grew more slowly than in the last two years. Thus, the first of these expanded by 14% in 1981, compared with the increase of almost 19% in each of the previous two years, whereas the second grew by 8% in 1981 after growth rates of 10.5% in 1976 and 11.5% in 1979 (see table 6).

In the course of the year, work continued in line with the schedule of activities for the execution of the Paraguayan-Brazilian binational Itaipú project, which will be the biggest hydroelectric plant in the world. By the end of 1981, most of the construction of the basic works was complete, and in line with the schedule of activities it was planned that the dam would be filled by October 1982; the experimental functioning of the first three turbines would be carried out in the first quarter of 1983, and the plant would enter into commercial operation in March 1986. When the last turbines have been installed in 1989, Itaipú will have a capacity of 12.6 million MW and will be capable of generating a maximum of 66 240 GW of electricity per year: twice the power of the biggest dam at present in existence.

Table 9

PARAGUAY: RATES OF OPEN UNEMPLOYMENT IN ASUNCION^a

Year and quarter	Men	Women	Total
1976	7.2	6.0	6.7
1977	6.2	4.1	5.4
1978	4.0	4.2	4.1
1979	4.9	7.3	5.9
I	5.5	6.7	6.0
II	5.9	7.9	6.7
III	4.8	9.9	6.9
IV	3.5	4.5	3.9
1980	3.3	4.9	3.9
I	4.1	6.8	5.3
II	3.0	5.6	4.0
III	3.3	4.1	3.6
IV	2.8	2.9	2.8
1981	2.5 ^b	1.7 ^b	2.2 ^b
I	2.6	1.0	2.0
II	2.4	2.3	2.3

Source: Department of Statistics and Censuses, *Encuesta de hogares. La muestra mano de obra* (several issues), and data supplied to ECLA.

^aIn addition to Asunción, includes Fernando de la Mora, Lambaré and the urban areas of Luque and San Lorenzo.

^bFirst half of year.

Table 10

PARAGUAY: MAIN EXTERNAL SECTOR INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
1970 = 100							
Volume of exports of goods and services	121.2	132.3	169.2	207.2	215.4	220.9	204.0
Purchasing power of exports of goods and services	127.4	144.4	219.8	246.3	245.0	235.5	223.5
Purchasing power of net imports of capital ^b	288.4	315.0	543.7	759.3	953.0	892.4	768.3
Total import capacity	149.9	169.2	265.0	317.9	343.8	326.8	299.6
Volume of imports of goods and services	143.6	155.2	212.1	250.8	297.3	292.8	303.0
Gross international reserves							
Index ^c	326.9	464.5	733.7	1 189.2	1 380.0	1 478.3	1 483.4
In months of imports ^d	4.8	6.4	7.4	10.1	10.0	10.8	10.5
Gross disbursed external debt ^e	109.3	155.4	164.3	205.2	192.3	193.5	202.3
GDP = 100 ^f							
Volume of exports of goods and services	8.9	9.1	10.3	11.4	10.7	9.8	8.4
Terms-of-trade effect	0.5	0.8	3.1	2.2	1.5	0.6	0.8
Net factor payments to rest of world	1.3	1.0	1.1	1.8	0.6	0.9	1.3
Purchasing power of net imports on capital account	4.7	4.6	5.6	8.5	8.2	7.4	6.4
Total import capacity	12.8	13.5	18.8	20.3	19.8	17.0	14.3
Volume of imports of goods and services	11.6	11.7	14.2	15.2	16.3	14.4	13.7
Trade balance ^g	-2.3	-1.8	-0.9	-1.6	-4.1	-3.9	-4.5
Current account balance	-3.5	-2.9	-1.9	-3.4	-4.7	-4.8	-5.8
Global balance of payments	1.2	1.7	3.7	5.1	3.6	2.6	0.6
Gross international reserves	4.7	6.3	8.8	12.9	13.5	13.0	12.0
Gross disbursed external debt	13.7	18.2	17.0	19.2	16.2	14.7	14.1

Source: ECLA, on the basis of official data.

^aPreliminary figures.^bDefined here as the difference between the global balance of payments and the trade balance, plus the use made of IMF credit.^cDeflated by the prices of imports of goods and services.^dGross international reserves and imports of goods and services for each year.^eAt market prices in 1970 dollars at the parity exchange rate.^fIncluding the terms-of-trade effect.

Paraguay will have at its disposal half of the energy which Itaipú is capable of generating. As this share will probably be about 20 times the domestic demand projected for 1989, on the basis of its present evolution, the country is faced with the challenge of deciding how to make the best possible use of this remarkable opportunity for growth and development.⁶

Preliminary work also continued on the other binational hydroelectric project, Yacyretá, which is being carried out in conjunction with Argentina. At the end of the year, however, it was expected that its execution would be delayed, perhaps indefinitely, because of circumstances mainly beyond the control of Paraguay.

(vi) *Employment and unemployment.* Thanks to the great dynamism of the economy, and especially that of the sectors making most intensive use of labour, the rate of open unemployment

⁶This matter was analysed in greater detail in last year's Economic Survey. See CEPAL, *Economic Survey of Latin America, 1980*, United Nations, Santiago, Chile, 1981, pp. 435-436.

went down from around 12% in 1973 to less than 7% in 1976 and 4% in 1978. To judge from the results of the household survey carried out in Greater Asunción, it would appear that in the first half of 1981, if not before, the economy reached a level of full employment and perhaps even over-employment of the labour force. Thus, in the first half of 1981 the rate of unemployment in Greater Asunción was down to only 2.2% of the labour force, the rates for men and women being more or less the same. Furthermore, in the same period the rate of unemployment among workers of primary working age (25 and over), did not even amount to 1% (it was in fact 0.6%) (see table 9).

The absorption of the existing unemployment, together with the employment of the 3.3% increase in the labour force, took place side by side with estimated expansion of the gross productivity of the labour force by an average of around 4.5% per year during the period 1972-1981.

3. The external sector

(a) *Introduction*

The evolution of the external sector in 1981 was characterized by the reversal of several of the main tendencies which had been observed since the beginning of the stage of rapid growth of the economy. Thus, there was a noteworthy drop in the volume of exports of goods and services, which fell to a level below that already reached in 1978, and there was also a substantial drop in the new inflow of capital, after eight years of uninterrupted rapid growth, so that there was a very appreciable decline in the import capacity, which sank to a level of 6% lower than that of 1978 and 13% below that of 1979 (see table 10).⁷ These developments, together with an increase in the volume of imports of goods and services, meant a further increase in the current account deficit and a substantial drop in the balance-of-payments surplus, which went down from an amount equivalent to 2.6% of the gross domestic product in 1980 to one equivalent to 0.6% in 1981. The gross international reserves barely grew at all in real terms, and actually went down slightly in relation to the flow of imports of goods and services, after having risen vigorously year after year in the past decade. The gross disbursed external debt, for its part, increased at a relatively modest rate, and for the third consecutive year it went down as a proportion of the gross domestic product, occupying a level similar to that of 1975 (see table 10).

The evolution of registered foreign trade in 1981 was conditioned mainly by the significant rise in the free market exchange rate of the guaraní, which amounted to 24% between the end of the first and last quarters, and by the sharp deterioration in the effective real fixed exchange rate, which amounted to over 16% for exports and nearly 11% for imports, on average, between 1980 and 1981 (see table 11 and figure 2).^{8 9} These exchange movements discouraged exports, while

⁷The import capacity had already declined in 1980 because of the sharp rise in import prices.

⁸Since its establishment in 1973, the free market had determined an exchange rate for the guaraní which was very stable and relatively close to the fixed official exchange rate. Thus, between 1973 and 1980 its annual average value did not vary by more than 7% between top and bottom levels, and it only exceeded the fixed official exchange rate by 10% in two years (1975 and 1977). In 1980, it was only 1.5% more than in 1973. From June 1981 onwards, however, a pronounced and erratic upward movement began. Thus, between the beginning of June and the beginning of August it rose from around 140 guaraníes per dollar to almost 185 guaraníes per dollar. By mid-September it had gone down to 160 guaraníes per dollar, but subsequently it rose again to 175 guaraníes per dollar in early November, only to go down again to 160 guaraníes per dollar at the end of that month. At the end of the year, it was once again close to 180 guaraníes per dollar.

⁹It should be noted that the indexes given in table 11 not only take account of the evolution of relative prices, but also of all the currencies of the main countries with which Paraguay trades. Furthermore, it should be noted that the marked and sometimes contradictory movements occur as a result of imbalances in the geographical distribution of external trade between registered and non-registered exports and imports. Much could be said about the evolution of these indexes in recent years, but here note should simply be taken of the sharp drop in the effective real (official) exchange rate in 1981, when this rate fell to its lowest level in the last decade, and the notable opposing movements between the official and free market effective real exchange rates for imports in 1981.

Table 11

**PARAGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE
INDEXES FOR EXPORTS AND IMPORTS**

(1980 = 100)

Annual averages	Exports			Imports		
	1	2	3	1	2	3
1970	142.5			141.4		
1971	137.2			134.8		
1972	126.1			121.0		
1973	112.2	120.4	115.2	105.6	126.6	115.6
1974	101.3	112.9	105.5	100.1	119.2	109.3
1975	92.6	110.1	99.0	87.6	108.7	97.6
1976	99.0	107.6	102.2	96.3	115.5	105.5
1977	97.5	105.0	100.2	93.6	109.2	101.1
1978	102.2	112.0	105.8	94.3	115.0	104.2
1979	95.0	97.6	95.9	89.3	98.9	93.9
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	83.6	99.1	89.3	89.4	108.2	98.4

Source: Statistical Appendix of the present Survey.

Note: 1 These indexes are obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1A). The products are then added together to give the effective real exchange rate indexes. These indexes were calculated on the basis of the official exchange rate of 126 guaraníes per dollar. for more details, see the introduction to the Statistical Appendix at the end of Part Two of this Survey.

2 These indexes correspond to a weighted average of the real exchange rate indexes for Paraguay with respect to Argentina, Brazil, the United States, Japan, the Federal Republic of Germany, Italy and France, according to the relative participation of the non-registered trade flows between Paraguay and these countries. In calculating these indexes the floating free market exchange rate was used (table 1B).

3 This corresponds to a weighted average of columns 1 and 2, according to the effective participation of Paraguay's main trading partners in its exports and imports (registered and non-registered).

stimulating imports through the official channels, where the fixed exchange rate prevails. The evolution of exports of goods and services shown by the official figures was also influenced by the marked drop in the growth rate of sales to the binational bodies.¹⁰

Outstanding among the factors which influenced the smaller net inflow registered on the capital account in 1981 were the marked rise in international interest rates and the corresponding exchange rate instability in the international and domestic markets, which encouraged the outflow of short-term private capital and depressed domestic demand for external credits, both directly and indirectly through their effects on the demand for foreign credits in connection with imports of goods and services. The balance on capital account was also affected by the smaller growth rate of the capital flows from Itaipú and Yacyretá and the decline in the expansion of gross domestic investment not directly related to Itaipú and Yacyretá.

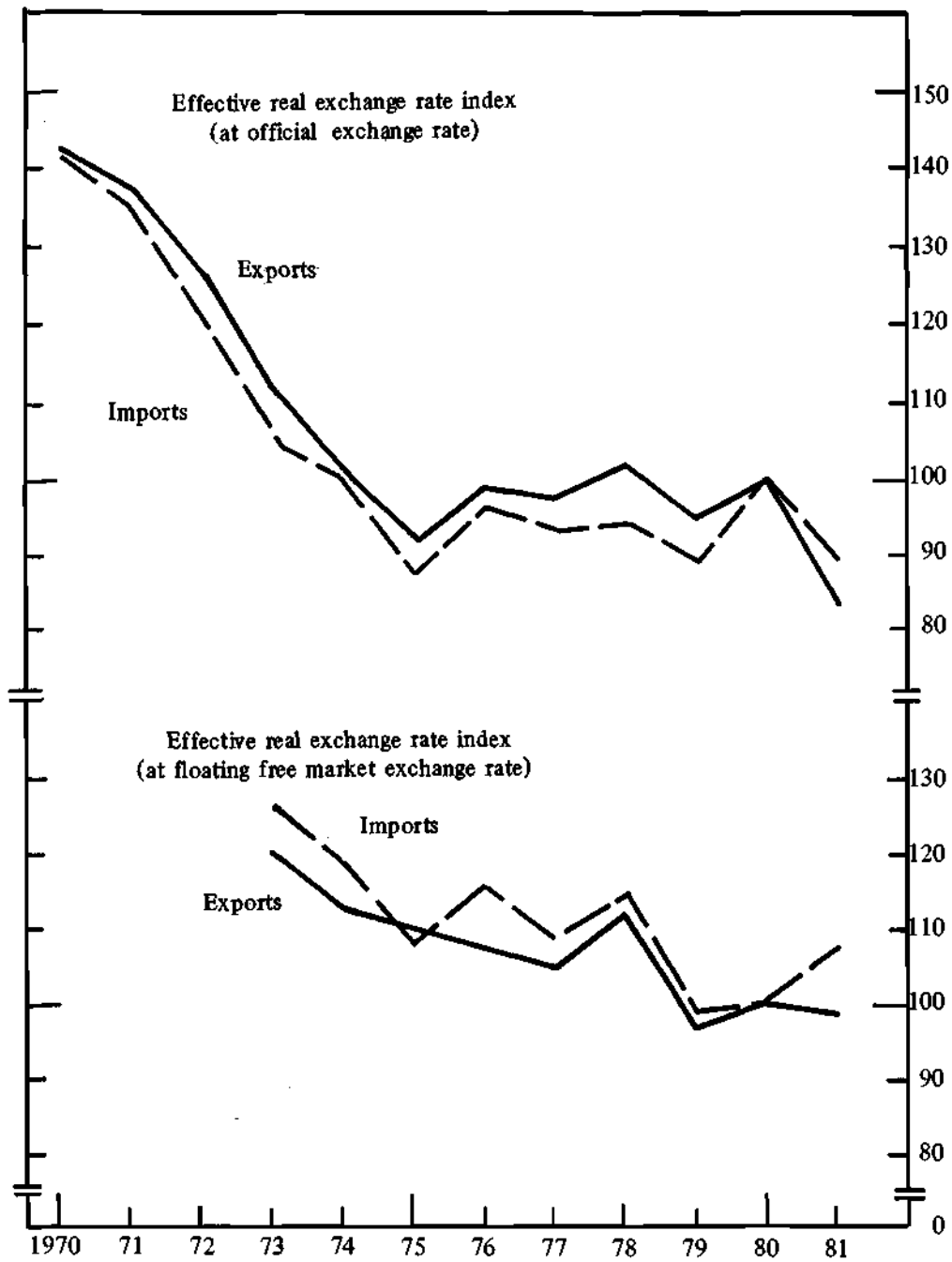
Apart from the crucial role played by the revaluation of the dollar *vis-à-vis* all the other hard currencies, the instability and rise of the free market exchange rate for the guaraní were considerably influenced by the enormous devaluations of the currencies of the neighbouring

¹⁰As regards the evolution of total external trade, including unregistered trade and the imports generated by Itaipú and Yacyretá, it may be noted that despite the marked deterioration in the effective real official exchange rate, perhaps due partly to the rise in the guaraní in the free market, the production and supply of agricultural export goods was sufficient to more than offset the negative effect of the stagnation and even decline in the levels of activity and demand on the main export markets, although the growth rate of total exports went down appreciably. In the case of imports, their lower growth rate compared with previous years would appear to reflect mainly the marked flagging in the growth of gross domestic investment. Moreover, it should be noted that, as happened in the case of the exchange rate for exports, the potential effects of the pronounced drop in the effective real official exchange rate on the demand for imports were partially offset by the marked rise in the effective real free market exchange rate.

Figure 2

PARAGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS

(1980 = 100)



Source: Statistical Appendix of the presente Survey.

countries with which Paraguay carries on active trade.^{11 12} The outflow of domestic private capital was also both a cause and an effect of the movements of the guaraní on the free market.

In the face of the international and regional events which were adversely affecting the development of external trade and the global balance of payments in 1981, the authorities took various compensatory exchange and monetary measures. In the area of exchange policy and foreign trade in general, it was decided to increase the exchange rate effectively applied for certain export products by reducing the export taxes on some and lowering the appraised value for others.^{13 14} Thus, in July the taxes on exports of vegetables, pulses and fruit were reduced by 50%, in August the tax on income deriving from exports of meat was eliminated, and in October the appraised value of six of the main types of export products was reduced by amounts varying from 4% for raw cottonseed oil in drums to 10% for raw bulk tung oil.¹⁵ On the import side, the list of imports channelled through the free exchange market¹⁶ was expanded in August, and in September the prior deposits in respect of imports financed with foreign exchange obtained on the free market were eliminated while at the same time such imports were made subject to an exchange tax of 8%. In addition, Law No. 550, which regulates the system of incentives for the promotion of domestic economic activity, was modified during the year with a view to increasing the effective protection given to certain activities through the elimination of the tax exemptions in respect of imported raw materials which are also produced in the country. Another important measure was the decision that, from August onwards, the river and ocean transport of the entire external trade of the country would be reserved for ships flying the Paraguayan flag or those of the other member countries of ALADI. Finally, it may be noted that in September the commercial banks were authorized for the first time to operate in the free exchange market, in the hope that the greater competition thus generated would reduce the violent fluctuations which had been affecting the free exchange rate since the middle of the year.

¹¹ The fact that the official exchange rate for the guaraní was kept fixed with respect to the dollar, which was rising sharply on international markets, meant a marked reduction in the real official exchange rates for the guaraní with respect to almost all the main world currencies. These variations ranged from 7% with respect to the Japanese yen to 24% with respect to the Deutschmark and the Dutch guilder (see the Statistical Appendix at the end of the *Survey*).

¹² Argentina, which during the five-year period 1975-1979 absorbed 15% and 4% of the registered and non-registered exports of goods of Paraguay and provided more than 17% and 20% of the registered and non-registered imports of goods by this country, devalued its currency by over 59% with respect to the dollar (and to the guaraní at the official exchange rate) between 1980 and 1981. Brazil, which during the same five-year period purchased 7% and 18% of registered and non-registered exports of goods and provided 21% and 56% of registered and non-registered imports of goods by Paraguay, devalued its currency by over 43% with respect to the dollar (and the guaraní at the official exchange rate) between 1980 and 1981. At the regional level, however, it was the devaluation of the Argentine peso which had the main effect in the Paraguayan exchange market, since the magnitude of the rise in the exchange rate in Argentina markedly exceeded the rate of inflation of that country in relation to the rate of inflation of Paraguay, whereas the increase in the exchange rate in Brazil was somewhat less than the Brazilian rate of inflation with respect to the Paraguayan rate. Thus, between 1980 and 1981 the real (official) exchange rate index for the guaraní with respect to the Argentine peso went down by over 22%, whereas the index with respect to the Brazilian cruzeiro rose by 2% (see the Statistical Appendix at the end of this *Survey*).

¹³ Exports are subject to various types of taxes, including customs duties and customs surcharges, the exchange tax, and the tax on sealed paper and stamps. The total amount of these taxes varies from a minimum of 4.6% (for wooden mouldings, wooden cases, parquet, mosaics, panel doors, turned and varnished rollers, and basketwork) to a maximum of 17.6% (for sawnwood) of the appraised value of the export products.

¹⁴ The appraised value determines the amount of foreign exchange which an exporter is legally obliged to deliver at the official exchange rate for each unit sold abroad, as well as the total taxes to be paid.

¹⁵ The six types of products favoured by this measure were tung oil, cottonseed oil, cottonseed cake or expeller, cottonseed meal or pellets, copra meal or pellets, and cotton fibres.

¹⁶ This expansion represented a considerable increase in the number of products subject to the Regional Trade Régime. Under this special régime, imports of selected products from Argentina, Brazil and Uruguay are subject to a flat rate tax of 15%, which not only simplifies but may appreciably cheapen the imports of these products in relation to other imports subject to numerous taxes at higher rates. This cost advantage was partially or wholly offset, however, depending on the particular case, by the rise in the free market exchange rate, where the foreign exchange to buy these products has to be obtained. This measure represented a *de facto* change in the average exchange rate prevailing in the economy, and may have had effects on inflation and on fiscal revenues.

In the area of monetary policy, two main measures were taken to offset the effects of the unfavourable external situation. In mid-September the compulsory legal reserve in respect of savings deposits with a term of more than 90 days was reduced from 42% to 30%, and towards the end of the month the interest rates on fixed-term savings deposits were increased from 11% to 13% per year for deposits with a term of 90 to 180 days and from 11% to 14% per year for deposits with a term of over 180 days. The reduction in the compulsory legal reserves was designed to reduce the cost of financial intermediation and make up, at least partially, for the depressive effects of the drop in the net inflow of capital on the growth of the money supply and its upward pressure on interest rates for loans. The aim of the increase in the interest rates on deposits, for its part, was to reduce the outflow of private short-term domestic capital.

(b) *Trade*

(i) *Exports of goods, FOB.* In 1981, the current value of registered exports of goods FOB went down by almost 5%¹⁷ (see table 12). This unfavourable result mainly reflected the marked reduction in exports of timber, but it was also influenced by the substantial declines in external sales of cake and expellers and tobacco. In contrast, there were substantial increases in some branches. Thus, the current value of exports of livestock products rose by 50%, although it remained very depressed in comparison with its traditional levels; that of exports of cotton fibres grew by more than 22%, and external sales of soya beans recovered by 13% after the very sharp reduction registered the year before.

In the depressed demand conditions prevailing on world markets in 1981, there was a deterioration in the prices of the great majority of basic commodities, among them the main Paraguayan export products. Thus, the international price of soya beans went down by 2.5%, that of soya oil fell by over 15%, and the prices of both cotton and timber went down by 9% (see table 13). Nevertheless, although this adverse evolution had a negative effect on the growth of total exports, the results for registered exports were most decisively influenced by the marked

Table 12
PARAGUAY: EXPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown		Growth rates			
	1978	1979	1980	1981	1970	1981	1978	1979	1980	1981
Total	257	305	310	296	100.0	100.0	-7.9	18.8	1.7	-4.7
Main traditional exports	86	92	106	78	69.9	26.6	-15.6	5.1	17.0	-26.6
Livestock products	32	12	4	7	26.6	2.3	14.9	-62.9	-63.0	53.5
Timber	20	42	66	36	20.3	12.3	2.2	7.6	57.1	-45.2
Oils	25	29	26	29	14.0	9.8	-39.1	13.9	-9.1	10.8
Tobacco	9	9	10	6	9.0	2.2	-32.3	-7.6	18.7	-36.3
Main non-traditional exports	146	190	170	191	10.1	64.7	1.1	29.0	-10.2	12.5
Cotton fibre	100	99	106	129	6.2	43.7	24.3	-1.4	7.3	22.2
Oilseeds (soya beans)	38	79	42	48	-	16.1	-31.8	105.0	-46.5	12.9
Feed-cake and expellers	8	12	22	14	3.9	4.9	-0.7	45.0	82.0	-35.1
Other exports	25	23	34	27	20.0	8.7	-24.3	4.9	36.5	-22.4

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay.

^aDoes not include, adjustments for exports of goods to the Itaipú and Yaciretá binational bodies.

¹⁷ As well as non-registered exports of goods FOB, these statistics exclude adjustments in respect of the exports of the binational bodies. The latter are included, however, in the balance-of-payments statistics given in table 16.

Table 13

**PARAGUAY: EVOLUTION OF EXTERNAL PRICES OF
MAIN EXPORT PRODUCTS**

(1970 = 100)

	Soya beans ^a		Soya bean oil ^c		Cotton ^d		Timber ^e	
	Nominal	Real ^b	Nominal	Real ^b	Nominal	Real ^b	Nominal	Real ^b
1972	119.0	103.6	84.3	73.3	122.1	106.3	127.6	110.5
1973	239.7	196.2	152.4	124.7	161.0	131.8	201.8	165.1
1974	228.9	117.0	290.9	148.6	215.6	110.2	237.0	121.1
1975	181.8	85.4	196.9	92.5	182.3	85.7	207.9	97.7
1976	190.9	88.0	153.1	70.6	258.3	119.0	219.8	101.3
1977	231.4	98.0	201.0	85.1	240.8	101.9	265.7	112.4
1978	221.5	85.3	212.2	81.7	237.7	91.6	303.1	116.8
1979	244.3	78.7	231.4	74.5	252.3	81.2	388.8	125.1
1980	244.6	64.6	209.1	55.2	307.0	81.0	443.7	117.2
1981	238.0	62.8	177.2	46.8	279.0	73.7	403.5	106.5

Source: ECLA, on the basis of UNCTAD, *Monthly Commodity Price Bulletin*, (various issues) and International Monetary Fund, *International Financial Statistics Yearbook*, 1981.

^aUnited States, yellow, CIF, Rotterdam.

^bThe nominal prices were deflated by world export prices.

^cAll origins, raw oil, FOB plant, Netherlands.

^dMexican middling grade, CIF Northern Europe.

^eTropical, wholesale price United Kingdom.

(11%) decline in the volume exported, which was connected with the unusually large rise in the free market exchange rate for the guaraní and the sharp deterioration in the effective official exchange rate, rather than with any shortage in the supply of exportable goods. The behaviour of the value of registered exports of goods FOB may also have been influenced by the reduction in the appraised value of several of the main export products which was decreed in October.¹⁸

(ii) *Imports of goods, FOB.* In 1981 the current value of imports of goods FOB registered in the Central Bank was 2% smaller than in 1980, after having increased rapidly over the last eight years (see table 14).¹⁹ This decline was due principally to the drop of 27% in imports of fuels and lubricants, but it was also influenced by the marked slackening in the growth rate of external purchases of consumer and capital goods.

Outstanding among the factors responsible for this reversal were the transfer of a large number of import goods to the free exchange market in August and the slackening of the growth rate of economic activity during the second half of the year.²⁰ Thus, the current value of registered imports grew by 18% as between the first half of 1981 and the first half of 1980, but fell by 15% as between the second half of 1981 and the second half of 1980.²¹

¹⁸If adjustments are made for the operations of the binational bodies, no variation is observed in the current value of exports of goods FOB between 1980 and 1981 (see table 15).

¹⁹In addition to non-registered imports FOB and the FOB imports generated by Itaipú and Yacyretá, these statistics exclude imports made in connection with external loans and unilateral official transfer payments and imports connected with direct foreign investment. The latter types of imports are included, however, in the balance-of-payments statistics given in table 15.

²⁰Imports financed with foreign exchange obtained on the free exchange market do not figure among the imports registered by the Central Bank.

²¹If the imports linked with foreign loans, unilateral official transfer payments and direct foreign investment are included, then instead of decreasing by 2% imports FOB increased by over 7% in 1981 (see table 15).

(iii) *Services.* Between 1980 and 1981 the current value of total exports of services increased by 6% (see table 16). Despite the relatively slow growth of merchandise trade, income in respect of transport and insurance increased by 45%. Income from interest, for its part, increased by 17%, due mainly to the rise in interest rates abroad, since the country's international reserves did not grow much. Income in respect of factor payments, which comes almost exclusively from Itaipú and Yacyretá, also grew, but much less (7%) than the year before (47%). Income in respect of travel, in contrast, went down by 11%, due largely to the virtual disappearance of the important tourist flow from Argentina after the devaluations and decline of activity in that country.

Imports of services, for their part, increased by almost 16%. The biggest rise was in interest payments, which grew by 32.5%. Remittances of profits abroad rose by almost 20%, outlays on transport and insurance increased by 18%, and tourism expenditure grew by 10%.

(iv) *The terms of trade.* In 1981 the various terms-of-trade indexes showed slight improvements after having deteriorated for three years running. The terms-of-trade index for goods rose by 2.5% after having gone down by over 29% between 1977 and 1980, while the terms of trade for goods and services rose by over 3% after a total decline of 20% in the previous three years (see table 16). As a result, the first index was similar in 1981 to the levels registered before the rise in oil prices, while the second stood at a slightly higher level than before the first oil crisis. In this respect, it is worth noting that in spite of the rise in oil prices on the one hand and the marked concentration of Paraguay's exports in basic commodities on the other, the country's terms of trade have been relatively favourable during the last decade.

(c) *The current account balances*

In 1981 the deficits on all the current account balances expanded considerably for the fourth consecutive year. Thus, the merchandise deficit grew by 18%, the trade deficit increased by 33%, and the current account deficit rose by 36% (see table 15). Between 1977 and 1981, these deficits increased respectively, as a proportion of the product, from 0.8% to 4.3%, from 1.6% to 4.5%, and

Table 14
PARAGUAY: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1978	1979	1980	1981	1970	1981	1978	1979	1980	1981
Total	317.7	437.7	517.2	506.1	100.0	100.0	24.2	37.8	18.1	-2.1
Consumer goods	108.2	152.9	173.2	180.0	45.4	35.6	28.0	41.3	13.3	4.0
Non-durable ^a	68.6	100.1	109.4	113.7	31.1	22.5	31.0	46.0	9.3	3.9
Foodstuffs	43.4	61.5	63.7	69.8	20.0	13.8	34.7	41.7	3.6	9.5
Durable ^b	39.6	52.8	63.8	66.3	14.2	13.1	23.2	33.1	20.8	4.0
Automobiles	10.8	16.6	18.3	16.8	2.7	3.3	18.2	54.5	10.0	-8.2
Intermediate goods ^c	102.8	149.0	188.3	164.9	28.2	32.6	32.3	45.0	26.4	-12.4
Fuels and lubricants	59.6	87.5	129.5	94.6	9.7	18.7	40.1	46.7	48.0	-27.0
Capital goods ^d	106.7	135.8	155.7	161.2	26.4	31.8	14.6	27.3	14.6	3.6
Machinery, equipment and motors	53.8	79.7	79.7	107.8	16.9	21.3	-5.3	48.1	-	35.1

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay.

^aChemical and pharmaceuticals, textiles and textile manufactures, writing paper, books magazines and brochures.

^bElectric appliances and other articles.

^cPaper, cardboard and manufactures thereof, excluding the items listed under ^a; miscellaneous items; tyres and tubes; base metals, iron and manufactures thereof; spare parts for cars and trucks.

^dAgricultural implements and transport equipment.

Table 15
PARAGUAY: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services ^b	89	89	105	149	207	228	249	407	472	549	616	616
Goods FOB	65	66	86	128	173	188	202	327	356	384	400	400
Services ^c	24	23	20	21	34	39	47	80	115	164	216	216
Transport and insurance	3	2	1	1	2	2	2	2	2	3	4	6
Travel	14	15	11	11	12	10	14	35	40	69	91	80
Imports of goods and services	98	106	105	159	244	282	295	433	529	733	844	920
Goods FOB	77	83	79	127	198	227	236	360	432	577	675	725
Services ^c	22	23	26	32	45	55	58	73	97	156	169	195
Transport and insurance	9	11	10	15	27	32	31	44	64	93	104	123
Travel	5	6	8	10	10	12	13	16	20	31	35	38
Merchandise balance	-11	-16	7	1	-25	-39	-34	-33	-76	-193	-275	-325
Trade balance	-9	-17	-	-10	-36	-55	-46	-26	-57	-185	-228	-304
Profits and interest	-13	-13	-12	-12	-20	-31	-27	-34	-61	-28	-59	-85
Profits	-5	-5	-3	-4	-10	-19	-13	-20	-42	-18	-54	-65
Interest received	-	1	1	2	5	6	9	12	18	45	77	90
Interest paid	-8	-9	-10	-10	-16	-18	-23	-26	-37	-55	-81	-110
Unrequited private transfer payments	2	4	3	2	2	1	1	1	1	3	3	2
Balance on current account	-19	-26	-9	-19	-55	-85	-72	-59	-118	-210	-283	-387
Unrequited official transfer payments	3	3	4	3	2	13	3	-	5	4	2	15
Long-term capital	19	25	20	30	53	86	117	85	167	136	192	...
Direct investment	4	7	3	9	21	24	-3	22	20	50	32	...
Portfolio investment	-	-	-	-	-	-	-	-	-	-	-	...
Other long-term capital	15	17	17	20	32	62	120	64	147	85	160	...
Official sector ^d	7	7	3	5	11	20	36	31	56	10	85	...
Loans received	10	9	6	7	14	23	40	38	65	21	98	...
Amortization payments	-2	-2	-3	-3	-4	-4	-8	-9	-9	-11	-12	...
Commercial banks	-	-	-	-	-	7	-2	-	-	3	1	...
Loans received	-	-	-	-	-	13	3	4	6	9	7	...
Amortization payments	-	-	-	-	-	-6	-5	-4	-6	-6	-6	...
Other sectors ^d	8	10	15	15	22	35	86	33	91	72	74	...
Loans received	12	17	20	24	32	50	102	55	118	113	135	...
Amortization payments	-4	-6	-6	-8	-13	-14	-15	-22	-28	-41	-60	...
Basic balance	2	2	15	14	-	14	49	27	54	-70	-90	...
Short-term capital	8	-1	-4	16	33	11	-6	106	108	223	261	...
Official sector	-1	1	1	2	-	-3	-1	3	7	15	3	...
Commercial banks	3	-5	-2	1	-9	-3	-12	4	9	-9	-14	...
Other sectors	6	4	-4	13	42	17	7	99	92	218	271	...
Errors and omissions (net)	-5	-1	-4	-6	-4	4	-	-20	17	9	-20	413
Balance on capital account	25	26	17	44	85	114	114	171	297	372	434	427
Global balance ^e	5	1	7	24	30	29	42	112	179	162	151	40
Total variation in reserves ^f (minus sign indicates an increase)	-7	-3	-10	-26	-30	-28	-43	-112	-179	-165	-153	-44
Monetary gold	-	-	-	-	-	-	-	-	-	4	-	-
Special Drawing Rights	-3	-2	-2	-1	-	-	-	-	-1	-4	-2	-3
IMF reserve position	-1	-	-	-1	-	-	-1	-1	-	-2	-8	-10
Foreign exchange assets	-4	-1	-8	-24	-30	-28	-42	-109	-180	-154	-143	-30
Other assets	-	-	-	-	-	-	-	-2	2	-1	-	-
Use made of IMF credit	-	-	-	-	-	-	-	-	-	-	-	-

Source: 1970-1980: International Monetary Fund Balance of Payments Yearbook; 1981: ECLA, on the basis of official data.

^a Preliminary figures.

^b Including adjustments for exports of goods and services to the Itaipú and Yaciretá binational bodies.

^c Services also include other official and private transactions, but not profits and interest.

^d In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^e The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

from 3.4% to 5.8%.²² The expansion of the overall current account deficit in this period is attributable mainly to the rapid growth of imports of goods and the stagnation of exports of goods in the last two years. The increase in net factor service payments, for its part, had less incidence.²³

(d) *The capital account and the global balance of payments*

In 1981, the surplus on the capital account failed to increase for the first time since 1976. Indeed, although the surplus registered was very large, it was slightly below that of 1980 (see table 15). This slight drop, together with the considerable expansion in the current account deficit, meant a marked reduction in the global balance-of-payments surplus, and hence also in the growth of the gross international reserves. This, in turn, was an important factor in the abrupt slowing down of the growth of the money supply and the notable rise in interest rates.

Table 16

PARAGUAY: VALUE AND VOLUME OF EXPORTS AND IMPORTS OF GOODS AND SERVICES

(Growth rates)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods							
Value	8.5	7.6	61.8	8.8	8.0	4.1	-0.4
Volume	8.3	7.9	20.0	19.4	1.1	0.3	-7.1
Unit value	0.2	-0.3	34.8	-8.9	6.8	3.8	7.2
Exports of services							
Value	15.1	18.8	70.6	44.2	42.3	31.4	6.3
Volume	-6.1	11.7	44.7	12.4	29.3	5.1	-7.7
Unit value	22.6	6.4	17.9	28.3	10.0	25.1	15.2
Exports of goods and services							
Value	9.7	9.4	63.5	15.8	16.3	12.3	2.0
Volume	5.3	8.6	24.8	17.9	7.1	1.5	-7.3
Unit value	1.9	0.3	29.2	-5.5	10.3	8.5	8.0
Imports of goods							
Value	14.6	4.0	52.3	20.0	33.6	17.0	14.4
Volume	1.4	10.3	42.7	16.7	11.2	-1.3	10.3
Unit value	13.1	-5.7	6.7	2.8	20.1	18.5	3.6
Imports of services							
Value	21.3	6.0	25.2	32.8	61.3	7.8	22.8
Volume	10.2	0.1	15.5	24.3	47.6	-1.8	13.4
Unit value	10.1	5.9	8.4	6.8	9.3	9.8	8.3
Imports of goods and services							
Value	15.9	4.4	46.9	22.2	38.7	15.0	16.1
Volume	3.3	7.9	36.7	18.2	18.4	-1.4	11.1
Unit value	12.2	-3.4	7.5	3.3	17.0	16.8	4.6
Terms of trade (goods)	-10.9	4.3	26.3	-11.4	-10.1	-11.3	2.5
Terms of trade (goods and services)	-9.2	3.8	20.2	-8.5	-5.7	-7.1	3.3
Purchasing power of exports of goods and services	-4.4	12.7	50.0	7.8	1.0	-5.7	-4.3

Source: ECLA, on the basis of official data.

^a Preliminary figures.

²² These balances include the terms-of-trade effect.

²³ It should be recalled that the balance-of-payments statistics given in table 15 exclude non-registered trade and imports of goods and services by the binational bodies.

The reduction in the net inflow of capital in 1981 compared with the year before was influenced by the rise in international interest rates and the international, regional and domestic exchange instability, which encouraged the outflow of short-term domestic private capital and affected the domestic private demand for external credits. Moreover, there was a substantial reduction in the growth of the flows of capital from Itaipú and Yacyretá and a drop in disbursements of external capital for the public sector.

Net imports of capital, which according to the registered figures increased from less than US\$ 17 million in 1972 to over US\$ 430 million in 1980²⁴ have played a key role in the present phase of growth of the Paraguayan economy, since they have contributed to the import capacity, the financing of domestic investment, and the growth of the means of payment. In 1980, for example, the net inflows on the capital account provided almost 39% of the gross total import capacity, and were equivalent to 21.5% of gross domestic investment.²⁵ Moreover, in the same year the variation in the net international reserves was equivalent to 149% of the increase in the M_1 money supply and 57% of the increase in M_2 (M_1 plus quasi-money).²⁶ If it persisted, therefore, the decline in the growth rate of capital flows would raise new challenges to the economic policy, especially in the fields of monetary policy, external trade and energy.²⁷

(e) *The external debt*

After having gone down slightly in 1980, the gross contracted external debt increased by over US\$ 300 million in 1981, entirely because of the sharp increase in public sector indebtedness (see table 17).²⁸ In contrast, the gross disbursed external debt increased by US\$ 88 million, which represented a drop of one-third in nominal terms compared with the 1980 increase. The net external debt, for its part, grew for the first time in five years because of the marked decline in the growth rate of the net foreign assets of the economy.²⁹ In nominal terms, however, it was still below the 1975 figure, which not only evidences a remarkable performance in the regional context, but also in the context of the intensive economic growth which has taken place in the country during this period. As regards the public sector, the total net external debt doubled in 1981, but

²⁴In real terms, net imports of capital grew at an average annual rate of 33.5% between 1972 and 1980.

²⁵The gross total import capacity equals the exports of goods and services, plus net imports of capital.

²⁶The variation in the net international reserves is approximately equal to the balance on capital account less the balance on current account, plus the increase in short-term external liabilities. In 1980, the variation in the net international reserves was virtually equal to the variation in the gross international reserves.

²⁷The information available to date suggests that there will be stagnation, and perhaps even a decline, in the capital account surplus in the course of the coming years, because of the proximity of the last stages of construction of Itaipú and the extension by several years of the time schedule for the construction of Yacyretá, and as the income from the sale of energy from Itaipú to Brazil will not begin to come in until after the middle of the decade, a stagnation or even reduction of the total import capacity may be expected in the next few years. This could well mean an appreciable diminution in the growth rate of the economy unless compensatory measures are taken. Already in 1981 the decline in the net inflow of capital prevented growth of the money supply because of the further expansion in the current account deficit and the traditional monetary policy, which is designed rather to contain the inflationary effects of big balance-of-payments surpluses.

²⁸Of the unusually large increase of US\$ 347 million in public sector external indebtedness in 1981, US\$ 190 million, that is to say 55% of the total, was contracted by a single public enterprise, the National Cement Industry, to finance the remodelling and expansion of its installed capacity. Consequently, although obviously the growth of the external public debt in 1981 represented a quantitative change with respect to the rate of external indebtedness in previous years, it is not clear that this signifies a change in the traditional policy of external indebtedness, which has been characterized by very limited use of external resources to finance domestic investments, except in certain years such as 1981 when it was decided to carry out a large-scale project.

²⁹The net foreign assets are equal to the foreign assets (gross international reserves) less the short-term foreign liabilities. Consequently, the figures on the net external debt given in tables 17 and 18 show the total medium- and long-term, public and State-guaranteed private (disbursed) external debt and the short-term external debt of the Central Bank, the National Development Bank and the commercial banks.

even so it did not reach the level of the nominal amounts registered in the early 1970s. The net external private indebtedness, for its part, went down for the second consecutive year.

As regards the servicing of the external debt, this rose markedly between 1980 and 1981 from US\$ 160 million to US\$ 201 million, due mainly to the increase in interest payments. The net servicing of the external debt also grew appreciably during the year (see table 17).³⁰

In real terms, the gross disbursed external debt grew between 1972 and 1981 at an average annual rate of 6%, if export prices are taken as the deflator, and at 6.6% per year if import prices are used as the deflator (see table 18). As a proportion of the gross domestic product, the gross disbursed external debt rose from 25% to almost 27% (at the official exchange rate) between 1971 and 1976, but it subsequently went down steadily to less than 17% of the product in 1981.³¹

The net external debt, for its part, went down markedly over the last few years, especially from the middle of the past decade and as a proportion of the product. Thus, between 1976 and 1981 it went down by 55% at constant prices and dropped from 22% to 5% of the gross domestic product at the official exchange rate.³² In 1972 it represented more than 30% of the gross domestic product at the official exchange rate, and between that year and 1981 it went down by a total of

Table 17

PARAGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Gross external debt contracted ^a	220	291	368	473	545	654	932	1 055	1 042	1 364
Public sector	205	248	295	380	458	537	787	853	830	1 177
Private sector	15	43	73	93	87	117	145	202	212	187
Gross external debt disbursed	192	219	272	332	456	518	669	733	861	949
Public sector	181	195	226	267	383	432	562	574	691	798
Private sector	11	24	46	65	72	87	107	159	170	151
Net foreign assets	-40	-23	7	28	76	172	340	480	633	667
Public sector ^b	-22	-7	14	30	67	167	336	475	613	640
Private sector ^c	-18	-16	-7	-2	9	5	4	5	20	27
Net external debt	232	235	265	304	380	346	339	253	228	282
Public sector	203	202	212	237	316	265	226	99	78	158
Private sector	29	33	53	67	64	81	103	154	150	124
Gross external debt service	19	21	33	42	47	60	79	113	160	201
Capital	9	11	17	24	24	34	42	58	79	91
Interest	10	10	16	18	23	26	37	55	81	110
Net external debt service ^d	18	19	28	36	38	48	61	68	83	111

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

^a Medium- and long-term public and State-guaranteed private debt; end-year balances.

^b Foreign assets of Central Bank less short-term foreign liabilities of Central Bank and National Development Bank.

^c Foreign assets less short-term foreign liabilities of private commercial banks.

^d Interest and capital paid, less interest received.

³⁰ The net servicing of the external debt equals the gross servicing less the income in respect of interest received from the exterior. This income is generated by the gross international reserves deposited abroad.

³¹ In this year the gross disbursed external debt was equivalent to 22.6% of the product at the free market exchange rate or 14% at the parity exchange rate. In 1977 the figures were 29% and 19%, respectively (see table 18).

³² As a proportion of the adjusted gross domestic product, the net external debt decreased even more.

Table 18

PARAGUAY: INDEXES AND RATIOS OF THE EXTERNAL DEBT

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Indexes 1970 = 100										
Disbursed gross external debt ^a										
At current prices	126.3	144.1	178.9	218.4	300.0	340.7	440.1	482.2	566.4	624.3
Deflated by export prices	108.3	89.2	86.3	103.9	142.2	126.5	172.6	169.1	181.4	184.8
Deflated by import prices	113.8	116.2	106.4	109.3	155.4	164.3	205.2	192.3	193.5	202.3
Disbursed net external debt										
At current prices	119.3	120.8	135.2	156.3	195.4	177.9	174.3	130.1	117.2	145.0
Deflated by export prices	102.3	74.8	65.7	74.3	92.6	66.0	68.3	45.6	37.5	42.9
Deflated by import prices	107.5	97.4	76.5	78.2	101.2	85.8	81.3	51.9	40.1	47.0
As a percentage of GDP										
Disbursed gross external debt										
At fixed exchange rate ^b	25.0	22.0	20.4	22.0	26.8	24.8	26.1	21.5	19.4	16.9
At floating exchange rate ^c		23.2	22.3	24.9	29.0	26.1	29.5	23.1	20.7	22.6
At parity exchange rate ^d	17.6	16.7	13.4	13.7	18.2	17.0	19.2	16.2	14.7	14.1
Disbursed net external debt										
At fixed exchange rate ^b	30.3	23.6	19.9	20.1	22.4	16.5	13.2	7.4	5.1	5.0
At floating exchange rate ^c		24.9	21.8	22.8	24.1	17.5	14.9	8.0	5.5	6.7
At parity exchange rate ^d	21.2	18.0	13.0	12.5	15.1	11.4	9.7	5.6	3.9	4.2
As a percentage of exports ^e										
Gross external debt service	18.0	14.0	15.9	18.9	19.4	15.4	18.2	22.0	28.3	35.8
Principal	8.5	7.4	8.2	10.8	9.9	8.7	9.7	11.3	14.0	16.2
Interest	9.5	6.7	7.7	8.1	9.5	6.7	8.5	10.7	14.3	19.6
Net external debt service ^f	17.1	13.0	13.4	16.1	15.8	12.2	14.0	13.2	14.7	19.7

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

^aMedium- and long-term public and State-guaranteed private debt; end-year balances.

^bBy the Central Bank, at current prices.

^cOn the free market, at current prices. The free market was formally established as from 1973.

^dCalculated by ECLA at constant prices. In order to deflate the external debt, the import price index was used.

^eExports of goods and services, excluding income in respect of interest from abroad.

^fInterest and principal paid, less interest received.

58% in real terms. Consequently, in this period Paraguay was not only the country which grew most in Latin America, but also the country which contracted least debt.³³

As a percentage of exports of goods and services, in contrast, the gross servicing of the external debt rose considerably in recent years.³⁴ Thus, between 1977, when it declined to a relatively low proportion, and 1981, it rose from over 15% to 36%, due mainly to the increase in

³³It is not desired to draw theoretical or practical conclusions by juxtaposing these two notable events, but rather to bring out the very special features of the evolution of the Paraguayan economy in recent years. In this respect, it is worth referring to the question of the changes which the debts in respect of Itaipú and Yacyretá could signify in the external indebtedness of Paraguay. From the point of view of the ownership of Itaipú and Yacyretá, the Government of Paraguay is responsible for 50% of the debts of the binational bodies. According to the treaties of Itaipú and Yacyretá, however, and in actual fact, the responsibility for contracting and guaranteeing the financing of the works has been assumed by the Governments of Brazil and Argentina, respectively. Moreover, the concrete effects of the servicing of this debt on the Paraguayan economy will depend on decisions which have not yet been taken regarding the use made of the electric power. One alternative for calculating the proportion of the debts in respect of Itaipú and Yacyretá which should be incorporated into the external debt of the country would be to work this out as a function of the percentages of the electric power which Paraguay decides to use itself, since this decision will determine the amount of foreign exchange which the economy will have to provide to service the debts of the binational bodies.

³⁴The figures for servicing exclude income in respect of interest payments received from abroad.

interest payments, but also to the notable growth of payments of principal and, in the last two years, to the stagnation of exports. The net servicing of the external debt hardly increased at all, however, between 1977 and 1980, the only substantial growth being registered in 1981. Even so, in the latter year it was still well below the gross servicing, and as a proportion of exports it was not very much higher than in 1972 (see table 18).

4. Prices and wages

(a) *Prices*

While inflation had slackened during 1980 from the unusually high rate to which it had risen in 1979, in 1981 its behaviour was rather erratic. In the early months of the year there was an abrupt and marked increase in the consumer price index, whose growth rate rose from a monthly variation of 0.3% in December to 5.2% and 4.9% in January and February, respectively. The variation over the previous 12 months, for its part, rose from 8.9% in December to 17.6% in February. Subsequently, however, there was a turnaround, since between February and July the level of prices actually dropped, and in the latter month the accumulated inflation over the last 12 months was similar to that registered in December of the year before. This downward trend was reversed from August onwards, however, and in the last quarter of the year the accumulated 12 months' inflation was similar to that registered in the early months of the year. Moreover, the total variation in the consumer price index in 1981 came to 15%, compared with 9% in 1980. In spite of this acceleration, however, the variation between the annual averages of the consumer price rises was a good deal less (13%) in 1981 than in 1980 (22.4%), due essentially to the pronounced slackening of inflation during the whole of the latter year with respect to 1979.

The wholesale price index, for its part, registered an even more variable type of evolution, as well as registering a larger rise (19.6%) than the consumer price index. In contrast, the year before

Table 19
PARAGUAY: EVOLUTION OF DOMESTIC PRICES

	1975	1976	1977	1978	1979	1980	1981
Variation between annual averages							
Consumer price index ^a	6.7	4.5	9.4	10.6	28.2	22.4	13.0
Food	4.6	4.2	11.2	13.0	29.5	18.9	6.5
Housing	9.2	3.1	8.0	6.4	22.4	22.8	27.1
Clothing	13.2	5.9	7.5	11.7	23.2	21.2	10.7
Miscellaneous expenditure	7.5	5.5	6.7	7.6	31.3	32.1	20.2
Wholesale price index ^b	15.2	1.1	8.0	12.8	26.3	7.8	12.1
Agricultural products	26.5	2.5	8.3	21.5	38.4	2.7	13.7
Implicit price index of gross domestic product ^c	6.7	5.0	9.2	10.4	20.6	16.8	16.6
Variation from December to December							
Consumer price index ^a	8.7	3.4	9.4	16.8	35.7	8.9	15.0
Food	11.4	2.0	9.9	22.7	38.4	-2.8	14.4
Housing	4.3	4.4	8.3	14.7	20.1	21.1	23.7
Clothing	9.7	5.3	10.0	12.0	30.4	14.8	9.4
Miscellaneous expenditure	4.8	5.2	8.6	5.9	43.2	30.7	12.9
Wholesale price index ^b	11.4	-1.2	6.9	23.7	33.0	-1.9	19.6
Agricultural products	28.3	-11.2	6.4	44.4	43.0	-10.6	30.9

Source: Central Bank of Paraguay.

^aBase year 1964.

^bBase year 1972.

^cAt market prices.

the wholesale price index had even gone down by 2%. The variation between annual averages, for its part, rose from a little under 8% in 1980 to a little over 12% in 1981. Finally, it may be noted that the increase in the implicit price index of the gross domestic product was virtually the same in 1981 as the year before (16.8% and 16.6% respectively) (see figure 3 and table 19).

The evolution of the general level of prices was decisively influenced by the behaviour of food prices, which, after having gone down by almost 3% in 1980, increased by over 14% in 1981. In contrast, the miscellaneous expenses section, which largely reflects the variations in the prices of energy products, had a moderating influence in 1981 after having pushed up the general index in the previous two years. There was also a slackening in the rate of increase of clothing prices, but housing prices once again rose appreciably, as they have done in recent years.

The resurgence of inflation displayed by the indexes, especially that of wholesale prices, is attributable mainly to the smaller output of foodstuffs for domestic consumption and the unusually large increase in the exchange rate. The backbone rate of inflation actually went down markedly in 1981, after having speeded up in the previous three years, thanks to the sharp reduction in the growth rate of nominal wages. Similarly, in contrast with what had happened in previous years, the evolution of external prices and of the monetary aggregates had a moderating influence on the behaviour of domestic prices.

After two years of abundant harvests, the production of food to supply the domestic market declined by almost 1% in 1981. The smaller supply of food was especially noticeable in the months of January and February, when the index of food prices rose by 13%. This rise was the main determining factor in the increase of over 10% shown by the general consumer price index in these two months. In the following five months, food prices went down appreciably because of the recovery in domestic production and a bigger volume of imports, but from August onwards they again began to increase by close to 2% per month because of a new slackening in domestic production and the effect of the devaluation of the guaraní. The smaller production of food during the year was due to bad weather, since there was a drought in the first half of the year and frosts in the second half. These frosts were the worst on record, except for those of 1975, according to the country's meteorological records, and seriously affected many crops.

The exchange rate began a marked upward movement as from June 1981, after two decades of almost complete stability. The number of guaraníes per dollar on the free market increased by over 19% between the end of the first half of the year and the end of the second half, reaching an average of 13% as between 1980 and 1981. This movement, together with the measures taken around the middle of the year which transferred a large number of imports from the official market, where the fixed exchange rate prevails, to the free market, gave rise to increases of over 12% in the average exchange rate between the end of June and the end of December, and almost 8% in terms of the averages between 1980 and 1981.

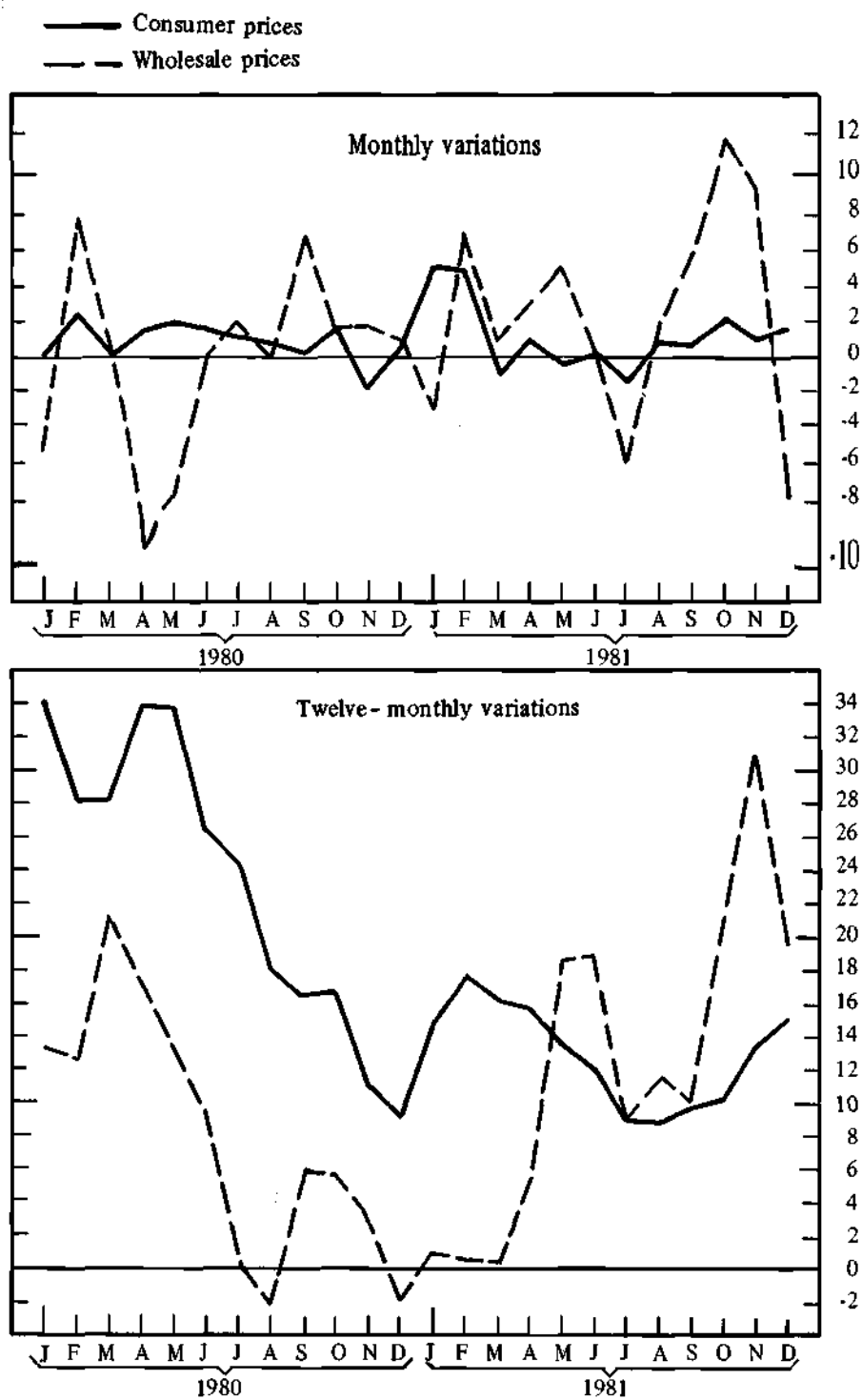
With this rise, the declining trend observed in prices between February and July was reversed as from August, and between the latter month and December the level of prices rose by rather more than 6% (see figure 3). The increase in the exchange rate, for its part, was the result of the rise in international interest rates and the corresponding exchange instability on the international and regional markets. Nevertheless, the magnitude of the resurgence of inflation in the second half of the year was a good deal less than the amount of devaluation of the guaraní, even though the economy was in a situation of full employment.

The backbone rate of inflation—that is to say, the growth rate of unit wage costs—not only stopped accelerating for the first time in four years, but even went down markedly between 1980 and 1981, although its annual average variation was somewhat greater in 1981 than in 1980 (see table 20).³³ This new tendency, which was due entirely to the slowing down of nominal wage increases, since it is estimated that the growth rate of gross labour productivity also declined,

³³ It should be noted that the data backing up this assertion are based on variables which in some cases were estimated. See in this respect footnote (a) of table 20.

Figure 3

PARAGUAY: SHORT - TERM EVOLUTION OF PRICES



Source: ECLA, on the basis of official data.

helped to neutralize to some extent the upward pressures on price levels. On the basis of partial data, it would appear that this effect was observed exclusively in the second half of the year.³⁶

The intensity of external inflation, as measured by the variation between annual averages for import prices, also slackened very appreciably, so that the rise registered in the domestic prices of imports was smaller than in the previous two years in spite of the increase in the exchange rate in 1981. In previous years, in contrast, external inflation had been one of the main factors promoting domestic inflation. It may be noted that it consistently preceded backbone inflation since the early 1970s up to the present, and exceeded it in the great majority of years in that period (see table 20).

Finally, the evolution of the monetary variables joined that of wage costs and external prices as a factor moderating domestic inflation in 1981. Outstanding in this respect were the pronounced slackening in the growth rate of net foreign assets, the notable reduction in the monetary multiplier, and the virtual stagnation of the amount of money in the economy. Thus, the

Table 20

**PARAGUAY: EVOLUTION OF SOME VARIABLES IN THE
EXTERNAL, LABOUR AND MONETARY SECTORS**

(Index = 100)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
External sector									
External prices of imports	111.7	160.5	180.0	174.0	186.8	193.2	225.9	263.8	278.0
Domestic prices of imports	112.8	164.4	185.9	179.0	190.8	204.7	236.3	274.4	311.4
External prices of exports	138.5	177.8	180.3	180.9	231.0	218.7	244.5	267.8	289.7
Domestic prices of exports	140.2	178.7	186.1	183.4	232.6	225.7	253.5	276.6	322.1
Labour sector^a									
Labour force	103.2	106.6	110.1	114.0	117.7	121.6	125.6	129.8	134.1
Employment	104.8	109.8	115.1	120.7	126.4	132.4	123.2	141.6	148.1
Gross labour productivity	102.3	105.7	107.2	109.5	117.7	124.7	136.2	143.8	149.2
Nominal wages	113.5	150.5	171.3	188.0	217.9	239.2	190.4	332.0	281.8
Unit wage cost	110.9	142.4	159.7	171.7	185.1	191.8	213.2	130.8	255.9
Monetary sector									
M ₁	132.6	160.5	189.2	229.2	303.3	422.6	525.8	662.0	662.7
M ₂	129.0	155.9	196.8	242.8	319.3	416.6	517.4	696.7	832.2
Monetary base	127.0	149.0	183.6	221.7	291.2	287.7	474.4	604.8	711.7
Net foreign assets	172.9	271.8	363.7	498.2	854.2	916.8	1 947.8	2 447.1	2 552.8
Net domestic assets	105.0	90.8	97.2	89.0	21.1	^b	^b	^b	^b
Domestic credit	103.4	100.8	104.6	103.8	69.0	24.6	^b	24.1	187.7
Public sector	62.5	73.7	73.3	59.1	3.8	^b	^b	^b	49.0
Central government (net)	99.3	40.2	26.2	15.2	^b	^b	^b	^b	^b
Other public bodies	89.0	104.5	125.6	107.8	92.9	96.3	102.6	264.6	285.3
Private sector	117.4	147.9	153.7	173.7	171.2	193.4	239.3	310.2	40.5
Other net assets (-) ^c	97.0	140.7	134.1	162.5	260.2	587.0	809.8	1 234.8	1 622.4
M ₁ /monetary base	104.4	107.4	103.0	103.4	104.1	109.0	110.8	109.4	93.1
GDP/M ₁	97.7	108.1	103.9	96.5	89.8	78.8	84.5	87.5	110.4

Source: ECLA, on the basis of official data.

^aThe labour force statistics were projected by CELADE. Those for employment were estimated on the basis of the employment surveys carried out in Greater Asunción by the Department of Statistics and Censuses of Paraguay. The index of wages is a weighted average of the wages for manual workers in Asunción and agricultural daily wages (less meals), provided by the Central Bank and the Ministry of Agriculture, respectively.

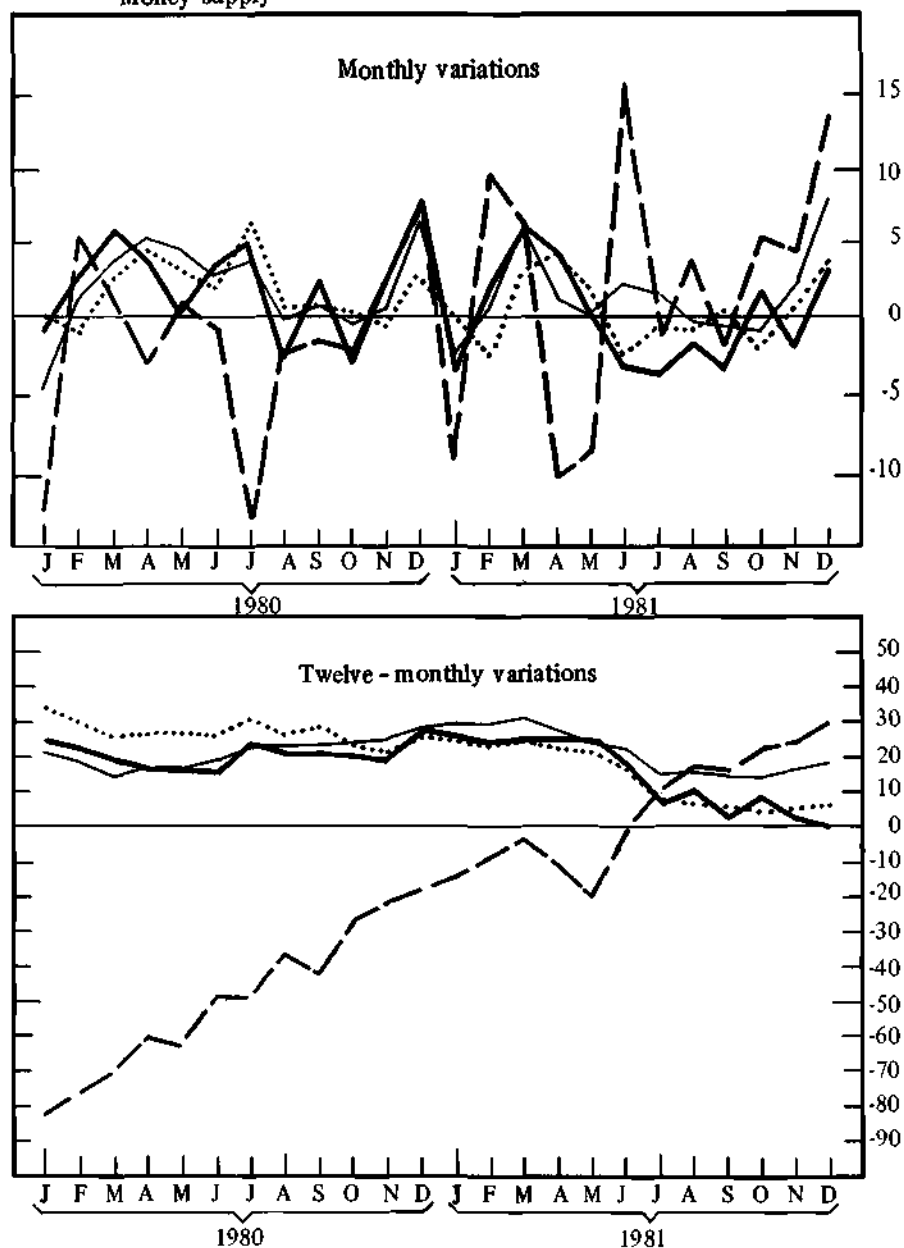
^bNegative figures.

^cThe figures for other net domestic assets were negative throughout the period.

³⁶The wage index for manual workers in Asunción rose by 14.6% in the first half of the year but by only 0.5% in the second half.

Figure 4
PARAGUAY: SHORT-TERM EVOLUTION OF THE
MAIN MONETARY AGGREGATES

..... Net foreign assets
— Net domestic assets^a
— Monetary base
— Money supply



Source: ECLA, on the basis of official data.

^aNet domestic assets were negative throughout the period (i.e., domestic liabilities exceeded domestic assets). The signs indicate an increase in the negative position of the net domestic assets, and vice versa.

expansion of net foreign assets, which had risen to over 60% per year in 1977-1978, dropped from 27.6% in 1980 to 5.4% in 1981. In only five months — from May to October 1981 — the twelve-monthly growth rate dropped violently from 22.3% to 3.9%. The effects of this slackening in the growth rate of the monetary base, however, were partially offset by the sharp drop in the deposits of the central government with the monetary authority, so that the magnitude of the decline in the growth rate of money issued, although very considerable, was a good deal less than it might have been. An unusually pronounced reduction in the monetary multiplier, however, which reflected a sharp increase in the reserves of the commercial banks, meant that the M_1 money supply barely grew at all (see table 20 and figure 4). In previous years, the unceasing expansion of liquidity and more particularly of foreign assets was not only a key factor in the increase in production, but also in the performance of prices. It is interesting to note, in this respect, that the stagnation of the nominal supply of money in 1981 did not have the effect of checking the growth of the product of inflation. Indeed, the velocity of money circulation showed an increase of 26% in 1981. It should be added, however, that in the second half of the year there was a perceptible slackening in the growth rate of the product, while inflation became more pronounced because of the increase in the exchange rate.

(b) *Wages and salaries*

For the second consecutive year, both the wages paid to manual workers in Asunción and the minimum legal wages increased in real terms. Real agricultural daily wages, in contrast, again registered a deterioration (see table 21).

With regard to the wages of workers in Asunción, the real increase in their general index was appreciable, since it was over 6%. With this rise, this index recovered from the decline suffered in 1979, although even so the level reached was still 12% below that registered in 1970. Unlike what had happened in previous years, in 1981 the evolution of workers' wages in Asunción was relatively similar in the different sectors, except in the case of commerce, where, as in 1980, the rise in real terms was very pronounced. In the case of the other activities, the real improvement in 1981 was between 5.7% (construction and transport, storage and communications) and 7.6% (other services). Despite the recoveries observed in the last two years in most activities, however, none of them reached even the level of real wages paid before the acceleration of the economic growth rate at the beginning of the previous decade. The sector which came closest to the level of real wages prevailing in 1970 was construction, and that which was furthest away from this was basic services.

The legal minimum wages paid in Asunción and Puerto Stroessner increased by a little over 4% in real terms, after having grown by 8% the previous year. Thanks to the progress made in the last two years, they have almost recovered the real level which they had in 1970. In the case of other cities and rural areas, the legal minimum wages in 1981 were about 4% behind their respective real levels of 1970.³⁷

Average agricultural day wages, for their part, showed a decline in real terms for the fourth consecutive year. Thus, the average agricultural day wage, without meals, went down by a little over 1% in 1981 after having fallen by almost 11% in 1980, by 4.6% in 1979, and by a little over 3% in 1978. The agricultural day wages which include meals fell by 1.6% in 1981, by 8% in 1980, by close to 1% in 1979, and by 6.6% in 1978.³⁸ Altogether, the average agricultural day wage without meals went down by almost 19% in real terms between 1977 and 1981, while the day wage with meals fell by 15%. In the period 1972-1977, in contrast, when there was a big deterioration in the legal minimum wages and the wages paid to workers in Asunción, real daily wages in the agricultural sector rose by an unusually large amount. Thus, between 1972 and 1977 the average agricultural day wage (without meals) increased by no less than 44% in real terms.³⁹ For this

³⁷ In 1970, in turn, the real levels of the various legal minimum wages were about 9.5% less than in 1964, when the present consumer price index came into effect.

³⁸ The index for agricultural day wages which include meals only takes account of the cash portion of the wage.

³⁹ Between 1970 and 1972 it had gone down by a little over 5%.

reason, despite their steady decline in recent years, and in contrast with the situation prevailing in Asunción, rural workers at the beginning of the 1980s were earning real wages which were appreciably higher than those paid at the beginning of the 1970s (see table 21).

Outstanding among the factors which had the most direct influence on the evolution of real wages in 1981, as in previous years, were the dynamism of the increase in the demand for labour caused by the rate and structure of growth of the product, the Government's wage policy, and the intensity and variability of inflation. These factors directly and indirectly affected the evolution of

Table 21

PARAGUAY: EVOLUTION OF WAGES

	Index 1970 = 100					Growth rates				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Nominal										
Wages of workers in Asunción										
General	168.0	192.4	230.9	284.5	341.7	4.3	14.5	20.0	23.2	20.1
Manufacturing	167.5	193.4	227.8	283.9	341.4	3.4	15.5	17.8	24.6	20.3
Construction	211.7	237.1	270.2	318.1	379.7	13.8	12.0	14.0	17.7	19.4
Electricity, gas and water	169.7	188.2	211.0	259.1	310.8	10.3	10.9	12.1	22.8	20.0
Transport, storage and communications	162.5	185.4	237.9	287.5	343.4	3.2	14.1	28.3	20.9	19.4
Commerce	171.3	190.1	210.2	300.5	374.2	0.9	11.0	10.9	42.6	24.5
Other services	156.0	178.7	225.0	296.9	360.9	0.7	14.6	25.9	32.0	21.6
Average agricultural daily wages										
With meals	311.7	322.1	415.6	467.5	519.5	23.4	3.3	29.0	12.5	11.1
Without meals	304.3	326.1	398.6	434.8	485.5	23.5	7.2	22.2	9.1	11.7
Minimum legal wages										
Asunción and Puerto Stroessner	173.1	197.1	246.4	326.5	384.6	-	13.9	25.0	32.5	17.8
Other cities	167.0	190.0	237.7	314.7	370.3	-	13.8	25.1	32.4	17.7
Agriculture	149.9	188.4	237.3	314.2	369.7	-	25.7	26.0	32.4	17.7
Real^a										
Wages of workers in Asunción										
General	85.1	88.1	82.5	83.0	88.2	-4.6	3.5	-6.4	0.6	-6.3
Manufacturing	84.9	88.6	81.4	82.8	88.1	-5.5	4.4	-9.1	1.7	6.4
Construction	107.2	108.5	96.5	92.8	98.1	4.0	1.3	-11.4	-3.8	5.7
Electricity, gas and water	86.0	86.1	75.4	75.6	80.3	0.8	0.1	-12.4	0.3	6.2
Transport, storage and communications	82.3	84.9	85.0	83.9	88.7	-8.0	3.2	0.1	-1.3	5.7
Commerce	86.8	87.0	75.3	87.8	96.6	-7.8	2.3	-13.4	16.6	10.0
Other services	79.0	81.8	80.4	86.6	93.2	-8.0	3.5	-1.7	7.7	-7.6
Average agricultural daily wages										
With meals	157.9	147.5	148.5	136.4	134.2	12.9	-6.6	0.7	-8.1	-1.6
Without meals	154.2	149.3	142.4	126.9	125.4	13.0	-3.2	-4.6	-10.9	-1.2
Minimum legal wages										
Asunción and Puerto Stroessner	87.7	90.2	88.0	95.3	99.3	-8.6	2.9	-2.4	8.3	4.2
Other cities	84.6	87.0	84.9	91.8	95.6	-8.5	2.8	-2.4	8.1	4.1
Agriculture	75.9	86.3	84.8	91.6	95.5	-8.5	13.7	-1.7	8.0	4.3

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay, Department of Economic Studies; Ministry of Agriculture, Department of Agricultural Marketing and Economics; and ministry of Justice and Labour, Department of Human Resources.

^aThe nominal values were adjusted by the consumer price index.

real wages, while of course at the same time they themselves were conditioned by other factors such as the inflow of capital, the evolution of prices and interest rates abroad, and other government policies, both short-term (fiscal, monetary and exchange) and long-term (land settlement, investment).

It is estimated that in 1981 the increase in employment once again very appreciably exceeded the expected growth rate of 3.3% in the labour force, since it is calculated that the number of jobs rose by 4.6% —virtually the same rate as the average rate registered during the period of accelerated growth of the economy. This pressure on the labour market, which reduced the rate of unemployment to only 2.3% of the labour force at the end of the first half of the year,⁴⁰ together with an increase equivalent to 15% of the minimum wage decreed on 1 May,⁴¹ was reflected in an annual average rise of 20% for the third year running in the average nominal wage of workers in Asunción and an increase of 12% in the average nominal wage of agricultural workers.

Moreover, although inflation persisted, the annual average variation in the consumer price index went down drastically from 22.4% in 1980 to 13% in 1981. In these circumstances, the new rise of 20% in the nominal average wage for manual workers in the capital meant a considerable improvement in their real situation. For agricultural workers, on the other hand, the reduction in the annual average rate of inflation was not sufficient to offset the slower rise in their nominal wages.

An interesting feature is the significant deterioration in the real wages of manual workers in Asunción in the 1970s in spite of the outstanding dynamism of the economy. If this deterioration really took place and is not merely the result of outdated and biased statistics,⁴² it would appear to be attributable mainly to the resurgence, persistence and frequent acceleration of inflation and to the government wages policy. At all events, either because real wages dropped considerably or even if they rose a little, the contrast between their evolution and that of the economy is very marked.

It is obvious that the deterioration in the real wages of manual workers in Asunción began because of inflation, which in turn was caused by external inflation. It is also obvious that subsequently the persistence, and especially the frequent acceleration, of inflation continued to erode the purchasing power of wages. It is worth noting that in seven of the nine years in the period 1971-1979 inflation accelerated, and in six of those seven years the real average wage

⁴⁰In Asunción, Fernando de la Mora, Lambaré and the urban areas of Luque and San Lorenzo.

⁴¹The timing and amount of the readjustment are determined on the basis of the behaviour of the consumer price index. The legislation in force provides that the minimum wages can be readjusted when an increase of 10% has been built up in this index. The amounts of the official readjustments, which are binding in respect of all private sector wages and salaries, are calculated in guaraníes as a function of a percentage increase in the legal minimum wage. Thus, for example, a person earning twice the legal minimum wage existing before the readjustment in May was entitled to an increase equivalent to 7.5% of his wages. On this occasion, however, it was also decided that employers would be entitled, if they wished, to deduct from the readjustment any wage increases granted since the last compulsory readjustment in July 1980.

⁴²The consumer price index dates back to 1964. As is well known, the further one moves away from the base year, the greater is the extent to which composite indexes (such as those for consumer prices) distort the real value of the variable they are supposed to be measuring. This is because the variation, in this case of relative prices, induces consumers to change the composition of the goods and services on which they spend their budget, so that the "typical" (average) shopping basket for the base year (or in reality for the base month) ceases to represent the real pattern of expenditure in the economy. Moreover, the greater the variability of prices, the greater the distortions usually are. It is important to note that consumer price indexes consequently tend to overestimate inflation, because usually there is a tendency to consume less of the goods and services whose relative prices rise and more of the goods and services whose relative prices fall. These problems, which are inherent in composite indexes, make it advisable to change the base year frequently, especially when there is inflation. At all events, it seems very probable that the consumer price index used in Paraguay has overestimated, possibly to a considerable extent, the real inflation which has taken place in the country. Moreover, the index measuring manual workers' wages also has a very old base (1969). The structure of the economy has changed considerably in the last 13 years, and as a result of this the composition behind the index has become less and less representative.

declined.⁴³ The government wages policy, for its part, was used from the mid-1960s onwards as one of the tools of government anti-inflation policy.⁴⁴ Thus, in the course of this period the percentage readjustments in the minimum wage were consistently less than the inflation as measured by the consumer price index.⁴⁵ Moreover, there were three periods —two of them relatively long— when inflation of as much as 25% or more was accumulated before the Government granted an increase in the legal minimum wage and, ultimately, in the other private sector wages and salaries. Moreover, the method used under the readjustment policy had the result that the average readjustment was necessarily still less than inflation.⁴⁶

Since 1979, however, and especially in the last two years, there has been a change in wages policy. Thus, since January 1980 the readjustments in the minimum wage have exceeded the accumulated inflation, and since 1979 they have been more frequent than in the past.⁴⁷ The practice of granting smaller readjustments for wages and salaries which are above the minimum has been maintained, however. In conjunction with the slackening of the rate of inflation, the new wages policy has favoured a partial recovery in real wages.

Finally, it should be noted that although up to 1979 the government wages policy provided for average readjustments which were a good deal lower than the rate of inflation, the actual growth rate of wages was really very close to that of inflation, especially since 1973, which was when the rate of expansion of the economy began to accelerate. It seems clear in fact that, in contrast with what is sometimes asserted, it was precisely the extraordinary dynamism of the economy which offset the effects of inflation and of a restrictive wages policy on the real wages of workers, because this dynamism gave the latter, through the total elimination of unemployment, a degree of bargaining power which they would otherwise not have had.⁴⁸ It is also important to bear in mind that, unlike the workers in Asunción, the mass of wage-earners have not suffered a deterioration in their real situation, since the functional distribution of income has not varied significantly in the last decade.⁴⁹

⁴³The only year in which the acceleration of inflation was not accompanied by deterioration in real wages was 1978, when the rise in inflation was very slight. Likewise, the only year in the period 1969-1981 (for which data on the wages of manual workers in Asunción are available) when the deceleration in inflation was not accompanied by an increase in real wages was 1975, which was the year of smallest economic growth.

⁴⁴In contrast, in its first ten years the Government followed a rather liberal wages policy. It is worth noting that with the readjustments granted, the legal minimum wage rose by no less than 95% in real terms between 1953 and 1964 (between 1950 and 1953 the legal minimum wage had declined sharply (-28%) in real terms) (see the sources cited in table 21).

⁴⁵In May 1971 the minimum wage was readjusted by 10%. Between the last readjustment (April 1964) and this one, the consumer price index had registered inflation of 13%. In March 1973 the minimum wage was again increased by 10%, whereas the inflation registered in the previous two years and two months had been almost 25%. In October of that year, however, an additional readjustment of 14.8% was granted, although in the previous four months the cost of living had risen by only 0.6%. In May 1974 the minimum wage was increased by 20% although between October 1973 and that month the inflation had been almost 27%. In February 1978 a readjustment of 15% was granted, whereas inflation in three and a half years before had come to 29%. In 1979 there was a change in wages policy, since on average the two readjustments granted during the year were only a little below inflation. Moreover, the readjustments were made more frequently.

⁴⁶This is because the readjustments in wages and salaries over the legal minimum wage are proportionately less than the readjustments in the minimum wage. Moreover, the legal minimum wage is not in force for the public sector.

⁴⁷The readjustment in January 1980 came to 15.2% while inflation was 14.5%; the July 1980 readjustment was 15.1% while inflation was 8.2%, and the July 1981 increase was also 15.1%, while the rise in the consumer price index was 10.6%. It may be recalled, however, that it was decreed that increases granted since the last official readjustment could be deducted from the latest official increase.

⁴⁸At the same time, one should not overlook the links between the dynamism of the economy and inflation on the one hand, and the anti-inflation policy and inflation on the other.

⁴⁹See Central Bank of Paraguay, *Cuentas Nacionales*. This means, of course, that some sectors or strata of the wage-earners, such as agricultural workers and the professional groups, have obtained real improvements in the last decade.

5. Fiscal and monetary policies

(a) *Introduction*

The short-term fiscal and monetary policies for the year are to a large extent determined towards the end of the previous year through the general budget of expenditure of the nation and the monetary programme of the Central Bank. In the first case, expenditure is fixed and income and financing needs for the following year are projected both for the general government, which includes the central government, the municipalities and quasi-autonomous bodies, and for the public enterprises. In the second case, the evolution of net foreign assets and of the domestic demand for credit is estimated, and the desired variation in the net domestic assets of the Central Bank is programmed for the following calendar year.

Although there is no formal co-ordination between these two processes,⁵⁰ traditionally both have been carried out subject to the same basic restriction, which consists in the maintenance of a fixed exchange rate for the guaraní in terms of the dollar. This basic objective, of course, has imposed rather strict limitations as regards the size and frequency of deficit spending and the expansion of the monetary base. At the same time, the conduct of fiscal and monetary policies has also been strongly conditioned by the desire to keep the size of the State's operations in the economy down to a modest level, which has in practice meant keeping the growth of fiscal income below the growth of the product.⁵¹ ⁵² When the rate of expansion of the economy began to accelerate at the beginning of the last decade, however, the specific restrictions on the rate of growth of government expenditure and income and on the issue of money were markedly relaxed. Thus, in spite of the fact that the increase in total expenditure rose to an average of 8.9% in real terms and that there was no significant change in the tax structure between 1972 and 1981, the central government nevertheless registered global surpluses in most of these years.⁵³ Indeed, at the end of 1979 the surplus accumulated by the central government amounted to the equivalent of 36% of the expenditure carried out during that year and to 29% of the money supply in the economy. The monetary base, for its part, also expanded at an average annual rate of 8.9% in real terms in the period 1972-1981, while the M_1 money supply expanded in real terms at an annual rate of 8% in spite of the immobilization of large financial resources by the Central Bank, including 100% of the surplus accumulated by the central government and as much as 42% of the domestic currency deposits in the commercial banks.⁵⁴

During most of this period, there were even difficulties in expanding expenditure at desired rate because of various shortcomings such as the severe shortage of administrative and professional personnel, which hindered the fulfilment of the public sector investment programmes. In recent years, however, the growth rate of expenditure by general government and

⁵⁰ In working out its monetary programme, however, the Central Bank has before it projections of the financing needs of the public sector.

⁵¹ The relative size of the Paraguayan State presence in the economy is one of the smallest in Latin America. In 1981, for example, the (total) current expenditure and income of general government were equivalent to 14.1% and 11.3% respectively of the gross domestic product, compared with 14.5% and 11.8% respectively in 1972. Similarly, consolidated non-financial public sector expenditure and income in 1981 were equivalent to 16.6% and 12.2% respectively of the product, compared with 17.3% and 14.7% respectively in 1972 (see table 22). It may also be noted in this respect that Paraguay is one of the few countries where there is no personal income tax (a law to introduce such a tax was approved in 1971, but subsequently its application was suspended and it has so far not been put into effect).

⁵² The fulfilment of the general targets as regards expenditure and income has been facilitated at the operational level by the use of a unified budgeting process for the public sector, which has made it possible to exercise quite strict control over the financial situation of the State in all its dimensions and, in particular, to avoid significant imbalances.

⁵³ Total general government expenditure also grew by 8.9% per year in this period, while those of the public sector increased at the rate of 8.5% per year.

⁵⁴ It is worth noting that since 1977 the net domestic assets of the Central Bank have become negative, while the monetary multiplier has consistently been below unity (see table 23).

Table 22
**PARAGUAY: OPERATIONS OF THE CENTRAL GOVERNMENT, GENERAL
GOVERNMENT AND CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR**
(As percentages of the gross domestic product)^a

	1972	1977	1978	1979	1980	1981
Central government^b						
Current income	11.6	10.4	11.2	10.8	9.8	8.9
Tax revenue	10.2	9.3	9.9	9.6	8.8	7.9
Direct taxes	...	1.8	2.2	2.0	2.2	2.2
Indirect taxes	...	7.5	7.9	7.6	6.6	6.0
Transfers from rest of public sector	...	-	-	-	-	-
Current expenditure	10.0	7.3	7.1	6.7	7.2	8.0
Wages and salaries	5.1	3.4	3.3	3.0	3.0	3.4
Goods and non-personal services	1.8	1.6	1.5	1.3	1.5	1.5
Transfers	2.0	1.5	1.5	1.4	1.5	1.5
Interest payments	0.3	0.3	0.3	0.3	0.3	0.3
Saving	1.6	3.1	4.2	4.1	2.6	0.9
Capital expenditure	2.2	2.9	3.0	3.3	2.8	3.9
Capital formation	1.5	2.4	2.6	2.8	2.0	2.2
Transfers to rest of public sector	0.6	0.4	0.4	0.5	0.7	1.6
Global balance	-0.1	0.2	1.2	0.8	0.3	-3.0
Financing	0.1	-0.2	-1.2	-0.8	-0.3	3.0
Domestic (net)	-0.1	-1.2	-1.8	-1.2	-0.8	2.7
Indebtedness	...	-0.2	-0.1	0.3	-0.9	0.4
Central Bank	...	0.2	0.1	0.1	-0.1	0.1
Other	...	-0.4	-0.2	0.2	-0.8	0.3
Cash variation	...	-1.0	-1.7	-1.5	0.1	2.3
External (net)	0.2	1.0	0.6	0.4	0.5	0.3
General government^c						
Current income	12.7	12.9	13.8	13.3	12.3	11.3
Current expenditure	11.8	8.8	8.8	8.4	8.8	9.5
Wages and salaries	...	4.3	4.3	4.0	3.9	4.3
Goods and non-personal services	...	2.0	1.9	2.1	1.8	1.9
Transfers	...	1.5	1.4	1.3	1.4	1.5
Interest payments	...	0.3	0.3	0.4	0.4	0.3
Saving	0.9	4.0	5.2	4.8	3.4	1.7
Capital expenditure	2.7	3.4	3.4	3.9	3.3	4.6
Capital formation	...	2.9	3.0	3.4	2.7	2.7
Transfers to rest of public sector	...	-	-	-	-	-
Global balance	-1.7	0.7	1.8	1.0	0.5	-2.7
Financing	1.7	-0.7	-1.8	-1.0	-0.5	2.7
Domestic (net)	0.9	-1.7	-2.4	-1.5	-1.0	2.4
Indebtedness	...	-0.1	-0.1	0.3	-0.3	0.5
Central Bank	...	0.2	0.2	0.1	-	0.1
Other	...	-0.3	-0.3	0.2	-0.3	0.4
Cash variations	...	-1.6	-2.3	-1.8	-0.7	1.9
External (net)	0.8	1.0	0.6	0.5	0.5	0.3
Consolidated public sector						
Current income	14.7	13.8	14.6	15.0	13.3	12.2
Current expenditure	11.8	8.8	8.5	8.4	8.8	9.5
Wages and salaries	...	4.3	4.3	4.0	3.9	4.3
Goods and non-personal services	...	2.0	1.9	1.8	1.8	1.9
Interest payments	...	0.3	0.3	0.4	0.4	0.3
Transfers to private sector	...	1.4	1.3	1.3	1.4	1.5
Saving	2.9	5.0	6.2	6.6	4.6	2.7
Capital expenditure	5.5	6.3	7.1	5.9	5.5	7.1
Capital formation	...	5.8	6.1	5.4	4.8	5.2
Global balance	-3.6	-0.9	-0.3	1.6	0.4	-3.4
Financing	3.6	0.9	0.3	-1.6	-0.4	3.4
Domestic (net)	1.6	-1.7	-2.3	-2.2	-1.1	2.4
Indebtedness	...	-	-	0.2	-	0.7
Central Bank	...	0.1	0.1	-	-	0.1
Other	...	-0.1	-0.1	0.2	-	0.6
Cash variations	...	-1.7	-2.3	-2.4	-1.1	1.7
External (net)	2.0	2.6	2.6	0.6	0.7	1.0

Source: ECLA, on the basis of data supplied by the Technical Secretariat of the Ministry of Finance, the Public Sector Planning Division of the Technical Planning Secretariat, and the World Bank.

^a At factor cost in current prices.

^b Before consolidation.

^c Consolidated.

the public sector together has risen to exceptionally high levels, while the growth of income has markedly slackened. Thus, between 1978 and 1981 total expenditure by the general government and the consolidated non-financial public sector increased by 16.2% and 12.1% per year respectively, in contrast with 5.5% and 6.8% in the period 1972-1978. In contrast, after having increased by 10.4% and 10.0% respectively between 1972 and 1978, the real income of general government and the consolidated public sector only grew by 2.8% and 3.6% in the following three years. The evolution of the monetary aggregates also showed a very notable change from 1978 onwards. Thus, it may be noted that after having grown at real annual rates of 11.5% and 13.1% respectively between 1972 and 1978, the monetary base expanded by only 3.8% between 1978 and 1981, while the real supply of money actually declined in those three years by 1.5% per year.

Although these new trends were due largely to institutional and structural factors, such as the existence of a tax system which has been becoming increasingly inelastic and some organizational

Table 23

PARAGUAY: CREATION AND INCOME-VELOCITY OF MONEY

	1975	1976	1977	1978	1979	1980	1981
	Growth rates ^a						
Money							
M ₁	17.9	21.1	32.3	39.3	24.4	25.9	0.1
M ₂	26.2	23.4	31.5	30.5	24.2	34.6	19.5
Monetary base	22.9	20.7	31.4	33.1	22.4	27.5	17.7
	As a percentage of the increase ^b						
Sources							
Net foreign assets	87.3	114.5	166.0	196.3	190.5	124.2	32.1
Net domestic assets	12.7	-14.5	-66.0	-96.3	-90.5	-24.2	67.9
Net domestic credit	74.6	5.6	64.9	40.4	52.0	-128.0	190.3
Public sector	41.4	-2	208.1	97.2	119.5	137.0	42.2
Central government	-283.6	43.0	85.9	101.8	102.7	-132.1	95.3
Other public bodies	383.6	57.0	14.1	-1.8	-2.7	232.1	4.7
Private sector	58.6	2	108.1	2.8	-19.5	-37.0	57.8
Other net domestic assets	25.4	94.4	35.1	59.6	48.0	228.0	-90.3
Uses ^c							
Currency outside banks	33.3	30.7	37.1	46.9	54.7	44.5	-0.2
Commercial bank reserves	65.2	71.9	61.0	51.5	37.3	53.1	112.0
	Ratios ^d						
Currency outside banks/ demand deposits	1.04	0.93	0.91	0.92	1.04	1.09	1.06
Currency outside banks/ total deposits	0.32	0.29	0.29	0.32	0.34	0.32	0.25
Banks reserves/demand deposits	1.46	1.43	1.41	1.31	1.31	1.35	1.80
Bank reserves/total deposits	0.45	0.45	0.45	0.45	0.43	0.40	0.43
Monetary multiplier							
M ₁ /monetary base	0.82	0.82	0.83	0.87	0.88	0.87	0.74
M ₂ /monetary base	1.71	1.74	1.74	1.71	1.74	1.83	1.86
Income-velocity of money							
GDP/M ₁	10.68	9.92	9.23	8.10	8.69	6.90	8.98
GDP/M ₂	5.13	4.68	4.38	4.11	4.42	4.27	3.57

Source: ECLA, on the basis of official data; International Monetary Fund, *International Financial Statistics* (various issues).

^aEnd-year balances.

^bEach section adds up to 100%.

^cThey are discrepancies in the original data.

^dThe multipliers were calculated directly. The indirect calculations, through the ratios, do not always coincide with the direct calculations because the original data do not always work out exactly.

shortcomings in the planning and execution of public spending,⁵⁵ they also reflected to a considerable extent, especially in the monetary field, the results of the prevailing situation and other special circumstances of 1981.

Thus, on the one hand the recession and instability which were features of the international and regional markets adversely affected the development of economic activity and particularly of registered external trade, so that the growth of the public sector income weakened appreciably in nominal terms and even went down in real terms (the real increase in current general government income went down from 3.5% in 1980 to -0.2% in 1981).⁵⁶ Likewise, the adverse external situation had a good deal to do with the stagnation of the net foreign assets of the economy, and this in turn abruptly checked the growth of the monetary base and caused the real supply of money to fall by 14%. On the other hand, the simultaneous execution of a considerable number of large-scale projects, such as the formation of PETROPAR, a State petroleum company with private participation, and the projects for the modernization and expansion of the National Telecommunications Industry and the National Energy Administration meant an unusual and significant expansion in capital expenditure, which even exceeded the large increase budgeted for the year before. This, together with a likewise considerable unforeseen increase in current expenditure, gave rise to an expansion of no less than 26% in general government expenditure in real terms and growth of 27% for the public sector as a whole.⁵⁷

In view of the adverse evolution of external events and their repercussions on the domestic economy, the projection and forecasts made when formulating fiscal and monetary policy at the end of 1980 naturally became increasingly divorced from the actual conditions and needs of the economy, especially from the second half of the year onwards. In order to face up to this situation, the authorities made a number of changes in the tax system and in the decrees and laws governing the banking system which affect the evolution of the monetary aggregates and rates of interest. At the same time, the level of public expenditure was not only maintained but actually increased.

This latter fact, together with the official readjustment of wages and salaries, compensated for the slackening of the growth in global demand and, because of the stagnation of public income and the possibility of financing the resulting deficit from the surpluses registered in previous years, partially offset the depressive effects of the sharp slackening in the growth rate of net foreign assets on the monetary base and money supply and its upward pressures on interest rates. In contrast, the adjustments made in the tax and monetary policies did not have very perceptible effects in 1981, either because they were implemented towards the end of the year or because they were of relatively marginal impact. At all events, the probable effects of the international recession on the dynamism of the economy had not yet shown themselves in their full magnitude in 1981.

⁵⁵ These questions have been examined in detail by the World Bank in its latest report on the Paraguayan economy (see World Bank, *Economic Memorandum on Paraguay*, Washington, D.C., 1981).

⁵⁶ It should be noted, however, that the magnitude of the decline which the growth rate of income has been suffering, despite the dynamism of the product, suggests that the principal problem lies in the inflexibility of the tax system:

	<i>Real growth rates</i>		
	<i>1979</i>	<i>1980</i>	<i>1981</i>
Gross domestic product	10.7	11.4	8.5
Gross national income	11.2	10.0	8.3
General government			
Current income	5.1	3.5	-0.2
Tax income	7.3	1.8	-2.7

⁵⁷ The formation of PETROPAR alone called for a capital contribution by the central government of 8781 million guaraníes, which represented 11% of total central government expenditure and almost 8% of total public sector expenditure in 1981.

(b) Fiscal policy

The 1981 budget envisaged growth of a little under 18% in current central government income, which was a very similar figure to that of the year before, but in real terms the current income barely increased at all. As regards current expenditure, it was decided to increase this by a little over 22%, representing a very appreciable reduction with respect to the rate of 40% registered in 1980 (in real terms, current expenditure increased by 19.8% during the year). If the projection of income and the planned current expenditure had actually been fulfilled, this would have represented a slight improvement in the savings position of the central government, compared with the very considerable deficit registered the year before (see table 24).

As it turned out, current income expanded a little less than had been expected, due essentially to smaller tax collection than had been foreseen. Thus, current income increased by almost 15%, while tax revenue grew by 13.5% instead of the projected figure of 19.4%. This difference was partly offset by the larger revenue from non-tax income, which increased by almost 24%. In real terms, current central government income went down by 1.7%, while tax revenue went down by 2.7%.

This poor performance primarily reflected the stagnation of nominal revenue from foreign trade taxes, which in turn was due mainly to the weak performance of registered foreign trade and, to a lesser extent, to the reductions in the appraised values and tax rates for some exports which were decreed in the second half of the year. The transfer of a large number of imports from official foreign exchange channels to the free market in August may also have had some influence in this. On the other hand, it may be noted that rather than being a consequence of the slackening in the growth rate of income, the reduction in real revenue may have been the result of a tax system which is no longer in keeping with the pattern of income generation prevailing in the economy.⁵⁸

Current expenditure, for its part, rose by 39%, which was a similar rate to that registered in 1980 and virtually double what had been budgeted. This growth, which amounted to 19.4% in real terms, was mainly accounted for by consumption and transfers. The first of these increased by 42%, compared with a scheduled rise of 23% and an actual increase of 41% the year before, while transfers rose by 37% instead of the planned increase of 27.5% (36% the year before). This considerable further increase in central government consumption mainly reflected the growth of 41% in the wages and salaries account, although all categories showed very appreciable increases. The expansion of transfers, for its part, was due to a substantial increase in social payments to the private sector and transfers to the rest of the public sector (see table 24).

As current income did not increase as much as has been estimated and current expenditure rose much more than had been programmed, the central government saving once again went down markedly by 54%, from the equivalent of 4.1% of the gross domestic product in 1979 to 0.9% in 1981.

After capital expenditure had registered an increase of 11% in nominal terms in 1980 (equivalent to a decrease of 5% in real terms), the economic authorities planned to increase it by 50% in 1981. Ultimately, they did manage to increase total capital expenditure by the appreciable amount of 74%, which represented real growth of 49%. Capital formation, in contrast, was increased by only about half the planned amount. The notable increase in capital expenditure was mainly due to the formation of the PETROPAR enterprise in the field of the refining and marketing of petroleum and to an unexpected increase in the participation of the State in this enterprise. If the capital contribution made by the central government to PETROPAR is excluded, capital expenditure actually once again declined a little in real terms.

⁵⁸The level of central government income depends mainly on revenue from indirect taxes, and especially taxes on foreign trade. There is no personal income tax. Moreover, many taxes are specified in absolute amounts. In these circumstances, the sluggish growth of the "registered" external sector of the economy and the acceleration in inflation since the end of the last decade have meant a severe slackening in the growth rate of the central government's current income, despite the continuing dynamism of the economy as a whole in this period. Thus, between 1978 and 1981 current income, as a proportion of the gross domestic product, declined from 11.2% to 8.9%, and in the latter of these years it was smaller in relation to the product than in 1972 (see table 22).

Table 24

PARAGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1979	1980	1981 ^a	1981 ^b	Growth rates			
					1979	1980	1981 ^a	1981 ^b
Current income	43 629	51 592	60 628	59 107	27.1	18.3	17.5	14.6
Tax revenue	38 810	46 137	55 092	52 351	27.9	18.9	19.4	13.5
Direct taxes	8 449	11 323	11 262	14 235	25.7	34.0	-0.5	25.7
On personal income	-	-	-	-	-	-	-	-
On corporative earnings	6 846	9 395	9 624	11 735	27.7	37.2	2.4	24.9
On real estate	1 603	1 928	1 638	2 500	17.9	20.3	-15.0	29.7
Indirect taxes	30 367	34 814	43 830	38 116	28.6	14.6	25.9	9.5
On external trade	15 786	17 213	...	17 825	31.3	9.0	...	3.6
Imports	14 645	15 945	...	16 623	31.6	8.9	...	4.3
Exports	1 141	1 268	...	1 202	27.3	11.1	...	-5.2
On domestic trade	6 945	8 280	...	8 691	20.5	19.2	...	5.0
Others	7 636	9 321	...	11 600	30.9	22.1	...	24.5
Non-tax income	4 819	5 455	5 536	6 756	20.5	13.2	1.5	23.8
Current expenditure	27 193	38 064	46 538	52 998	25.8	40.0	22.3	39.2
Consumption	20 105	28 278	34 715	40 191	23.3	40.7	22.8	42.1
Wages and salaries	12 205	15 938	17 565	22 474	20.5	36.6	10.2	41.0
Goods and non-personal services	5 344	7 324	...	9 803	15.7	37.0	...	34.9
Others	2 556	5 016	...	7 914	63.7	96.2	...	57.8
Interest payments	1 345	1 766	1 891	2 147	57.1	31.3	7.1	14.0
Transfers	5 743	7 792	9 932	10 653	28.9	35.7	27.5	36.7
Subsidies	63	83	83	92	-	31.7	...	10.8
Transfers to the private sector	3 289	4 725	...	6 233	22.0	43.7	...	31.9
Transfers to the public sector	2 151	2 915	...	3 941	43.5	35.5	...	40.0
Others	241	298	...	357	22.3	23.7	...	19.8
Saving	16 436	13 527	14 224	6 117	29.3	-17.7	5.2	-54.8
Capital expenditure	13 435	14 912	22 439	25 974	46.7	11.0	50.5	74.2
Capital formation	11 379	10 694	18 726	14 743	44.3	-6.0	75.1	37.9
Financial investment	257	2 533	2 121	9 075	128.2	-	-16.3	258.3
Transfers to the public sector	1 799	1 672	1 442	2 153	67.8	-7.1	-13.8	28.8
Total expenditure	40 628	52 976	68 977	78 964	23.6	30.4	30.2	49.1
Global balance	3 024	-1 385	-8 215	-19 857				
Financing	-3 024	1 385	8 215	19 857				
Domestic (net)	-4 980	-1 153	3 326	17 646				
Indebtedness	1 052	-1 813	2 913	2 644				
Direct loans	1 350	-1 011	3 217	2 801				
Central Bank	585	236	...	379				
Suppliers	435	230	...	3 417				
Others	330	-1 477	...	-995				
Bonds	-298	-802	-304	-157				
Sale	-	-	-	-				
Amortization	-298	-802	-304	-157				
Cash variation (minus sign indicates an increase)	-6 032	660	413	15 002				
External (net)	1 956	2 538	4 889	2 211				
Loans	1 923	2 515	4 869	2 167				
Disbursements	4 226	4 066	7 128	4 639				
Amortization	-2 303	-1 551	-2 259	2 472				
Donations	33	23	20	45				

Source: Ministry of Finance of Paraguay, Technical Secretariat and Department of the Budget, and Public Sector Planning Division of the Technical Planning Secretariat.

^a Budgeted amounts.

^b Amounts actually registered (preliminary figures).

Altogether, central government expenditure increased by 49% in 1981 compared with 31% in 1980 and a budgeted figure of 30%. In real terms, fiscal expenditure grew by 28%, after having increased by a little under 12% the year before.

The reduction of saving by virtually half which took place parallel with an increase in capital expenditure by three-quarters gave rise to the first substantial fiscal deficit for two decades. The global central government deficit came close to 20 million guaraníes and represented rather more than 33% of the Government's current income in 1981. A similar proportion had not been registered since the early 1960s. Only two years before the central government had had a budget surplus equivalent to 7% of its current income. Furthermore, this meant that the deficit contemplated in the budget was exceeded by 140%. Instead of generating inflationary pressures or requiring excessive appropriation of domestic credit, however, the deficit spending ultimately had essentially beneficial effects, because in the face of the unfavourable external situation it helped to keep up the growth rate of global demand, both directly and indirectly, since it partly made up for the depressive effects of the stagnation of net capital inflows on the growth of money issue and the money supply, somewhat moderating the rise in domestic interest rates. The reasons why the appearance of a fairly substantial fiscal deficit had markedly positive effects were on the one hand, the fact that the size of the deficit was still quite small in relation to the size of the economy (3%), since the weight of central government operations in the global economy is still only modest, and on the other hand the fact that the surpluses accumulated in previous years enabled it to be financed without major contributions from the Central Bank or other domestic sources of credit. Thus, nearly 76% of the gap was covered with the Government's own resources accumulated in the past, and the domestic indebtedness mobilized to cover the central government's financing needs came to the equivalent of only 0.4% of the gross domestic product and 2.0% of domestic bank credit. In reality, almost all the domestic financing was provided by suppliers (see table 24).

The consolidated non-financial public sector, for its part, registered an increase of 16% in its current income, while its current expenditure rose by a little over 37%, both figures being almost equal to those registered the year before. In real terms, current income went down by 0.5% and current expenditure grew by almost 18%, these figures likewise being very similar to those registered in 1980.

As a result of these opposing trends, public sector saving once again went down in 1981, when it fell by 24.6% after having declined by almost 10% in 1980. This represented a reduction of around 35% in real terms compared with the 1980 level and 50% with respect to 1979. As a proportion of the product, it went down from 6.6% in 1979 to 2.7% in 1981. These results primarily reflected the evolution of the central government operations, since at current prices the saving of both the municipalities and the quasi-autonomous bodies increased between 1979 and 1981, while that of the public enterprises was only slightly lower in 1981 than in 1979. The improvement in the savings position of the municipalities and the quasi-autonomous bodies was due partly, however, to bigger transfers from the central government (see table 25).

Capital expenditure registered a noteworthy expansion of 63%, which corresponds to growth of 40% in real terms. In previous years, in contrast, it had not been possible to fulfil the expenditure target of the public investment programme, and up to a certain point the great expansion registered in 1981 reflected the lag in expenditure in the past. To a greater extent, however, it was due to the big expenditure by the central government in making up the capital of PETROPAR. At all events, despite the upward leap registered in 1981 public investment was entirely consistent with the levels envisaged in the latest development plans and investment programmes for the sector (around 7% of the gross domestic product).

Altogether, the expenditure of the consolidated non-financial public sector rose by over 47% at current prices and over 26% at constant prices in 1981, compared with 30% and 11.4% respectively the year before. The sharp rise in the growth rate of total expenditure primarily reflected the bigger central government current and capital expenditure, but its configuration was also affected by the marked increases in the current and capital expenditure of quasi-autonomous bodies and the capital expenditure of the public enterprises.

Table 25

**PARAGUAY: OPERATIONS OF THE CONSOLIDATED
NON-FINANCIAL PUBLIC SECTOR**

(Millions of guaraníes)

	1979	1980	1981	Growth rates		
				1979	1980	1981
Central government^a						
Municipalities						
Current income	1 993	2 732	3 379	30.3	37.1	23.7
Transfers ^b	48	83	116	...	73.0	38.9
Current expenditure	1 289	1 762	2 363	12.0	36.7	34.1
Transfers ^b	12	16	19	20.0	25.0	18.8
Saving	704	970	1 016	81.0	37.7	4.7
Capital income	177	497	358	-23.7	180.8	-28.0
Capital expenditure	947	1 589	1 759	15.0	67.8	10.7
Global balance	-66	-122	-385			
Financing	66	122	385	-67.2	83.8	214.7
Domestic (net)	82	472	403	136.5	473.4	-14.5
External (net)	-20	-	105			
Quasi-autonomous bodies						
Current income	9 599	12 510	15 768	25.8	30.3	26.0
Transfers ^b	1 740	2 114	2 923	30.1	21.5	38.2
Current expenditure	7 470	9 247	11 921	54.5	23.8	28.9
Transfers ^b	-	-	-	-	-	-
Saving	2 130	3 263	3 846	-23.8	53.2	17.9
Capital income and depreciation	1 537	4 073	3 077	161.8	165.0	-24.5
Capital expenditure	2 510	3 376	4 353	92.5	34.5	30.0
Global balance	1 157	3 960	2 570	-44.3	242.2	-35.1
Financing	-1 157	-3 960	-2 570			
Domestic (net)	37	120	-49			
External (net)	-122	-60	-149			
Public enterprises						
Current income	24 351	31 163	36 198	44.7	27.9	16.1
Transfers ^b	363	718	902	121.4	97.8	25.7
Current expenditure	17 032	24 926	29 085	20.0	-	16.7
Transfers ^b	-	25	27	-	-	24.4
Saving	7 319	6 237	7 113	177.1	-14.8	14.0
Capital income and depreciation	2 968	5 001	4 498	31.3	68.5	-10.1
Capital expenditure	8 008	11 700	16 516	-29.4	46.1	41.2
Global balance	2 279	-462	-4 905			
Financing	-2 279	462	4 905			
Domestic (net)	320	693	1 859			
External (net)	708	1 095	4 376			
Non-financial public sector						
Current income ^d	60 377	70 139	81 406	35.2	16.2	16.1
Current expenditure ^e	33 788	46 142	63 315	29.4	36.6	37.2
Consumption	26 152	35 306	49 435	25.5	35.0	40.0
Interest payments	1 459	1 941	2 325	47.4	33.0	19.8
Transfers to the private sector	5 043	7 271	9 631	26.0	44.2	32.5
Saving ^f	26 589	23 997	18 091	43.4	-9.7	-24.6
Capital income and depreciation ^f	3 639	6 825	6 409	72.2	87.6	-6.1
Capital expenditure	23 834	28 830	47 078	10.0	21.0	63.3
Capital formation	21 687	25 070	34 300	27.6	15.6	36.8
Global balance	6 394	1 992	-22 578			
Financing	-6 394	-1 992	22 578			
Domestic (net)	-8 916	-4 612	16 035			
Indebtedness	851	-530	4 858			
Loans	1 149	...	5 015			
Banking system (net)	1 074	...	1 172			
Central Bank (net)	1 148	...	706			
Non-banking (net)	75	...	3 843			
Bonds	-298	...	-157			
Disbursements	...	...	...
Amortization	-298	...	-157			
Cash variations	-9 767	-5 036	11 177			
(minus sign indicates an increase)						
External (net)	2 523	3 573	6 543			
Disbursements	6 567	3 573	10 628			
Availabilities	-4 044	-	-4 085			

Source: Public Sector Planning Division of the Technical Planning Secretariat of Paraguay.

^aSee table 20 above.

^bTransfers from rest of public sector.

^cTransfers to rest of public sector.

^dFor public enterprises, only the surplus on current operations is included.

^eDoes not include current expenditure of public enterprises.

^fNet of transfers.

Despite the stagnation of current income and the sharp acceleration in total expenditure of the central government in recent years, in 1979 and 1980 the savings, plus the capital income and depreciation funds of the public sector as a whole, were more than sufficient to finance real and financial investment. In 1981, however, the consolidated operations of the public sector turned in a deficit of 22.6 million guaraníes, equivalent to 28% of their current income and 22% of their total income. As a proportion of the product, the gap came to 3.4%, which was the biggest since 1975, when it amounted to 5.3%. The turnaround in the financial situation of the public sector in 1981 was due mainly to the persistence of the gap between the evolution of income and of expenditure of the central government, but it was also influenced by a moderate weakening in the financial performance of the rest of the sector. At all events, as well as being relatively small in relation to the product and smaller still in relation to domestic demand, the financing of the deficit only required a minor contribution of credit from domestic sources, and most of this was provided by suppliers. Net disbursements of external credits covered 30% of the deficit, and the surpluses accumulated in previous years were used to finance the remaining 50% (see table 25). Although the deficit was easy to handle and had rather beneficial effects for the evolution of the economy in 1981, however, if the recent trends in income and expenditure persist the deficit financing needs of the public sector are likely to grow considerably in coming years.

Towards the middle of 1980, a gradual but growing lag in the collection of fiscal revenue began to be clearly visible. This, together with the speeding up in the growth rate of expenditure, led to a deficit on central government operations at the end of 1980, for the first time since 1976. During the first half of 1981 the growth rate of regular income remained, with slight fluctuations, at the same level to which it had declined during the previous half year, but from September onwards the downward trend again began to show itself more clearly. Since at the same time the growth rate of expenditure had been increasing almost throughout the whole year, the deficit grew bigger month after month, except in December (see figure 5).

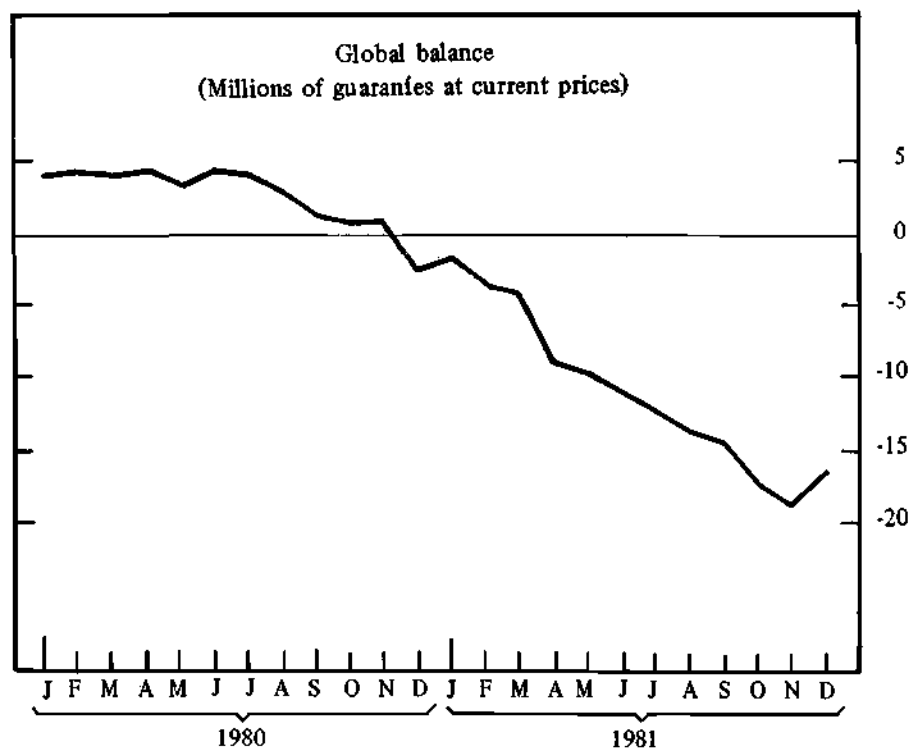
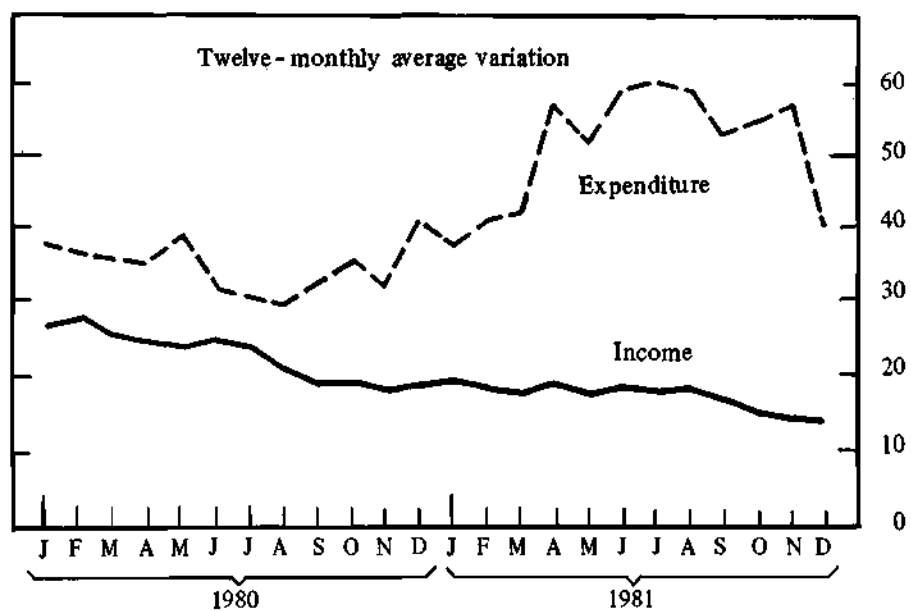
In view of the lag in income and the increase in the deficit, measures began to be applied, mostly at the end of the second half of 1981, to increase the yield of the tax system and keep down the growth rate of expenditure. The first measure, which was designed to increase tax income and was put into effect as from August, consisted of adding numerous goods to the list of imports subject to the Regional Trade Régime, under which a flat-rate tax of 15% is paid. Although this move meant reducing the rate of taxation, it was hoped that in many cases it would give rise to an increase in total revenue collection in respect of import duties, because the great majority of the products in question were not entering the country as registered trade and therefore did not pay any import duties at all. The other tax measures designed to increase fiscal revenue were taken in the last month of the year and included law 906, which modified the tax on the sale of goods considered to be of a luxury nature; law 907, on stamped paper and stamps; law 920 on the fiscal regularization of goods, securities, credits and merchandise, and law 921 on soft drinks and beer.

Law 906 increased the tax on the sale on a number of goods, such as photographic cameras, cookers, washing machines, television sets and jewellery, from 10% to 12%.⁵⁹ Law 907 made various changes in the tax legislation on stamped paper and stamps which involved increases in the absolute values of such taxes, which are very small. Law 920, for its part, gave facilities for legalizing the situation of goods and assets on which the corresponding taxes had not been paid, by providing for the payment of a flat-rate tax that was lower than those normally applicable. Those goods and assets existing in the country as at 31 December 1981 can be brought under the provisions of this law, scheduled to be in force for four months from 1 January 1982. The only articles not subject to the provisions of this law were pharmaceutical goods. Under law 921, the taxes in absolute values on soft drinks and beer were replaced by *ad valorem* taxes calculated on the current values. In addition to these measures, various taxes on the sale of goods were unified, and the average rate was increased from 3% to 5%. Finally, a special tax was introduced on the income of the PETROPAR enterprise.

⁵⁹This increase only affected imported goods, since domestically produced goods are subject to a sales tax of 5%

Figure 5

PARAGUAY: SHORT-TERM EVOLUTION OF CENTRAL
GOVERNMENT INCOME AND EXPENDITURE^a



Source: Tax revenue and regular expenditure only.

In addition to these reforms, the Government issued decrees 27866, placing a 4% tax on the revaluation of goods; 28104, raising the tax on the sale of fuels, and 29470 and 29471, which fix new reference prices for land and real estate in the country, for the effects of the payment of the land and real estate tax.

According to the estimates of the Ministry of Finance, the new laws and decrees would probably generate some 8.5 million guaraníes in 1982, which would be equivalent to 16.3% of tax income and 14.4% of total central government income in 1981, or 1.3% of the gross domestic product in that year. These additional resources, together with the increases already projected in tax revenue, would mean growth of 33.5% in central government tax collection in 1982, compared with growth of 13.5% in 1981 and 19% in 1980. If estimated non-tax income were added, the forecast would be for a rise of 38% in total current income, compared with increases of 15% and 18% in 1981 and 1980, respectively. As at the same time it was expected that inflation in 1982 would be less than in 1981, it was expected that the expansion in real terms would be still greater.

As regards the growth in expenditure in 1982, efforts would be made to keep it to a considerably lower proportion than in recent years. Thus, the national budget for 1982 programmed a 19.3% increase in total central government expenditure, compared with increases of 49% in 1981 and 31% in 1980. If the projections and plans regarding income and expenditure were to prove correct, this would mean reducing the global deficit from the figure of almost 20 million guaraníes registered in 1981 to around 13 million guaraníes in 1982.

For the rest of the public sector, no specific restrictions were contemplated in the expenditure plans, although smaller growth was envisaged in 1982 than in 1981. On the income side, the main initiative was the promulgation of law 881 which established a new tax régime for the Municipality of Asunción with a view to substantially expanding its tax base.

(c) *Monetary policy*

The monetary programme which the Central Bank established for 1982 scheduled an increase of close to 24% in the monetary base (see table 26).⁶⁰ This expected growth rate, which would be less than the 27% observed in 1980, would be the result of a scheduled expansion of over 21% in the Bank's net foreign assets and an increase of almost 15% in its net domestic liabilities. The growth in the net foreign assets was projected mainly on the basis of the expected behaviour of the balance-of-payments current account and the budgeted level of expenditure of the binational bodies. The scheduled growth, although very considerable, was nevertheless considerably lower than the rates registered in previous years. The scheduled increase in the net domestic liabilities of the Central Bank, for its part, which, as in the recent past, would reconcile the evolution of the monetary base with the domestic demand forecasts through the partial neutralization of the growth of net foreign assets, would be brought about partly through a sharp increase in capital and reserves, but would also require a considerable expansion in the "other" net liabilities, including the special deposits of the private sector with the issuing institution, since it was planned to provide 60% more credit to the economy than the year before and eliminate the prior import deposits. The larger supply of credit would be channelled almost entirely towards the private sector, and within it to the commercial banks. It was planned that the projected increase in the demand for credit by the quasi-autonomous bodies and public enterprises would be offset by a further surplus on the budgetary operations of the central government, which, as in previous years, would be immobilized in the national treasury account in the Central Bank.

From the point of view of the uses made of the monetary base, which the monetary programme breaks down into currency outside banks and the legal reserves of the commercial banks on current account deposit in the Central Bank, it was planned that there would be growth of a little over 21% in bills and coins in circulation, with an increase of 26% in the deposits of commercial banks in the Central Bank.

⁶⁰ Various adjustments have been made in the original presentation of the monetary programme of the Central Bank on the basis of the monetary accounting procedures used by the International Monetary Fund in its *International Financial Statistics*.

In its monetary planning, the Central Bank does not aim to control explicitly the growth rate of the money supply in the economy. Due to the relative stability shown by the marginal monetary multiplier in recent years, however, its objective as regards the monetary base implicitly involves a relatively narrow margin for the expansion of the money supply, or else has been established as a function of this. At all events, it may be noted that the expansion foreseen for the monetary base in 1981 would have been accompanied by growth of 22% to 26.5% in the case of M_1 and of 20.3% to 28.6% in the case of M_2 , if the extreme values registered for the respective multipliers in the previous five years had been applied.

Table 26
PARAGUAY: MONETARY PROGRAMME^a

	Billions of guaraníes					Growth rates				
	1979	1980		1981		1979	1980		1981	
		Pro-gram-med	Actual	Pro-gram-med	Actual		Pro-gram-med	Actual	Pro-gram-med	Actual
Monetary base	55.1	67.5	70.0	86.6	82.9	21.4	22.3	27.0	23.6	18.4
Sources	55.1	67.5	70.0	86.6	82.9	21.4	22.3	27.0	23.6	18.4
Net foreign assets	74.8	97.3	94.0	114.2	96.1	34.9	30.1	25.7	21.4	2.3
Assets	77.2	99.6	96.6	117.0	102.2	36.1	29.0	25.1	2.1	5.8
Liabilities	-2.4	-2.8	-2.6	-2.9	-6.1	-89.4	-12.8	-7.9	-8.4	-130.6
Net domestic assets	-19.6	-29.9	-24.0	-27.5	-13.2	-95.6	-52.0	-22.0	-14.8	44.8
Domestic credit	-2.1	-4.8	2.8	4.4	19.0	-	-132.6	-	60.1	589.1
Public sector	-8.3	-12.1	-6.6	-7.0	7.1	-140.7	-45.3	21.0	-6.2	-
Central government (net)	-14.6	-21.7	-17.0	-19.5	-5.0	-59.8	-48.1	-16.6	-14.4	-70.4
Credit	4.4	4.8	4.1	5.5	4.2	47.4	8.5	-6.3	32.7	1.0
Deposits	-19.0	-26.5	-21.2	-25.0	-9.2	-56.7	-38.9	-11.2	-18.0	56.4
Other public bodies	6.3	9.6	10.5	12.5	12.1	10.8	51.8	65.9	19.6	15.7
Financial ^b	3.4	3.6	3.0	4.0	3.8	9.0	5.5	-10.2	32.3	23.9
Non-financial	2.9	6.0	7.5	8.5	8.4	13.0	104.8	152.8	14.5	12.3
Private sector	6.2	7.3	9.3	11.4	11.9	30.7	16.4	49.5	22.2	28.2
Financial	3.7	4.8	6.8	8.8	9.3	64.6	27.8	80.7	29.9	37.4
Non-financial	2.5	2.5	2.6	2.6	2.7	-	-0.5	2.7	1.8	3.9
Other net domestic assets	-17.4	-25.1	-26.7	-31.9	-32.3	-53.1	-44.0	-53.7	-19.5	-20.7
Capital and reserves	-2.2	-3.1	-6.0	-9.3	-9.6	-43.8	-38.3	-170.8	-55.6	-61.0
Deposits	-8.6	-	-11.6	-	-15.2	-84.4	-	-34.7	-	-31.6
Private sector	-5.9	-	-9.2	-	-12.9	-112.1	-	-56.1	-	-39.7
Deposits for import premiums	-2.0	-2.5	-1.9	-	-0.9	-34.2	-25.6	3.3	-	-50.6
Special deposits	-3.6	-	-6.4	-	-11.0	-255.3	-	-76.5	-	-72.6
Others	-0.3	-0.4	-1.0	-1.0	-1.0	-10.2	-0.9	-177.5	-1.7	-0.3
International organizations	-2.7	-3.5	-2.4	-2.5	-2.4	-43.5	-30.7	12.1	-5.3	-0.2
Counterpart, adjustment of international reserves	-3.1	-2.9	-4.0	-4.7	-1.9	24.4	7.5	-28.5	-16.6	-53.4
Special Drawing Rights	-1.4	-1.8	-1.8	-1.9	-2.1	-41.6	-26.8	-27.6	-0.9	-7.1
Others (net)	-2.0	-11.0 ^d	-3.3	-8.2 ^d	-3.4	-	-444.2	-63.7	-147.5	-4.4
Uses	55.1	67.4	70.0	86.6	82.9	21.4	22.3	27.0	23.6	18.4
Currency outside banks	24.3	-	31.2	-	31.2	30.1	-	28.2	-	-0.1
Commercial bank reserves ^b	30.8	-	38.8	-	51.7	15.4	-	26.0	-	33.2
Legal reserves	26.7	-	34.4	-	44.0	13.1	-	28.6	-	27.7
Surplus reserves	4.1	-	4.4	-	7.8	33.3	-	8.6	-	75.0
Currency in circulation	26.4	35.9	33.7	40.9	34.4	31.1	35.7	27.9	21.3	1.9
Legal reserves and current amount deposits	28.7	31.6	36.3	45.7	48.5	13.8	10.1	26.4	25.9	33.6
M ₁	49.6	-	62.4	-	62.6	24.5	-	25.8	-	0.4
M ₂	97.5	-	131.3	-	157.0	24.2	-	34.6	-	19.6

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay.

^a Various adjustments, based on the monetary amounting used by the International Monetary Fund in its *International Financial Statistics*, have been made in the original layout of the monetary programme of the Central Bank, entitled "Desarrollo de activos netos del Banco Central de Paraguay" but there are still some differences between the values in this table and those given in tables whose source is the IMF.

^b In the Central Bank. These figures include the Commercial Department of the National Development Bank.

^c Included in the "Other (net)" section.

^d Including deposits.

^e Not programmed.

^f Including the surplus reserves in foreign currency deposited in the Central Bank.

In contrast with the experience of recent years, most of the monetary aggregates in 1981 showed wide divergences between the programmed performance and the actual results in the year. Firstly, the evolution of the key variable, net foreign assets, was completely different from what had been foreseen, since these grew by only 2.3%, whereas an increase of over 21% had been assumed. This unexpected result was due mainly to the big decline in the volume of registered exports of goods and services and the unforeseen stagnation of the net inflow on the balance-of-payments capital account.⁶¹ Its depressive effect on the expansion of the monetary base, however, whose evolution had been closely linked with the balance-of-payments surplus in the past, was more than offset by a marked reduction in the net domestic liabilities of the Central Bank. In contrast with what had been programmed, these liabilities went down by 45% although an expansion of 15% had been assumed for this monetary aggregate. As a result of this, the monetary base grew by more than 18%, which was relatively close to the goal of 23.6% (see table 26).

The sharp reduction in the negative balance of the net domestic liabilities of the Central Bank was due mainly to the fact that throughout the second half of the year the central government used its assets with the monetary authority to finance a deficit which also rose to an unexpected size. Thus, the Government reduced its deposits in the Central Bank by around 12 million guaraníes, which was more than the total reduction in the net domestic liabilities of the Bank, whereas it had been expected that there would be a moderate expansion in these.

On the side of the uses made of the monetary base, the results were likewise quite different from those programmed. Particularly noteworthy was the great divergence between the target and the actual result as regards currency outside banks, which instead of growing by over 21% only grew by 2%. The legal reserves and current account deposits of the commercial banks in the Central Bank, for their part, increased altogether by close to 34%, compared with the planned figure of 26%. These divergences were due to the marked unexpected stagnation of public demand for cash balances and the considerable rise in holdings of reserves by the commercial banks. Outstanding in this latter respect was the growth of 75% in the surplus reserves of banks.

The non-bank public reduced its relative marginal preference for cash balances to such an extent that demand for these even fell, while the commercial banks spectacularly increased the marginal ratio between their holdings of reserves and deposits and especially the relation between their reserves and demand deposits, which rose from 1.4% in 1980 to 46.8% in 1981. These dramatic changes in the behaviour of the public and the commercial banks meant that in spite of the fairly ample expansion in the monetary base, the M_1 money supply of the economy practically did not register any increase in 1981. In contrast, the expansion of 19.6% in the M_2 money supply was scarcely below the planned lower limit, thanks to the increase of issue programmed for 1981 and the evolution of the relevant multiplier in previous years.

It seems clear that these changes in the behaviour of the public and the banks were due to the unusually sharp rise in interest rates, since this markedly discouraged both the holding of money and indebtedness, while at the same time signifying a great stimulus for the sale of assets in the financial system. Thus, the potential size of the gross expansion of credit by the Central Bank and the commercial banks in 1981 was almost 18%, and in actual fact gross credit grew by 15% (see tables 27 and 28).^{62 63} If the loans made by the non-commercial department of the National Development Bank are added, then total gross credit increased by over 18% in 1981, and in relation to the gross domestic product the level of financing was not significantly less than the year before. At the same time, it would appear that no sector or activity in the economy suffered from any shortage of credit as compared with habitual levels of financing, except perhaps for export activities, whose procurement of credit declined by nearly 10%. Even in this case, however, it is not clear whether this was due to a restriction of supply or a decline in demand (see table 29).

⁶¹See section 3 (a) of this chapter.

⁶²The potential expansion is defined as the effective increase in credit, plus the holding of reserves surplus to the prevailing legal reserve requirement.

⁶³Gross credit excludes the variation in the central government's deposits in the Central Bank, that is to say, it is equal to the credit to the central government, plus credit to other public bodies, plus credit to the private sector.

At all events, the expansive effects exerted on the M_1 money supply by the increase in gross credit by the Central Bank and the commercial banks and the sharp reduction in central government deposits with the Central Bank were offset to the extent of 80% by the expansion in savings and term deposits. The remaining 20% was more than offset by the sharp rise in the capital and reserves of the Central Bank (see table 26 and 27).

It is probable that the existence of an adequate supply of credit explains, at least partly, why the abrupt and severe restriction on the M_1 money supply was not accompanied by a similar decline in the growth rate of economic activity or inflation. Indeed, in 1981 there was a substantial increase in the income velocity of circulation of money, which came to 9 compared with 7 the year before.⁶⁴ If the behaviour of quasi-money is taken into account, then the income velocity of money rose from 3.9 to 5.8.

The good performance turned in by the economy as regards real growth and the persistence of inflation constituted, at least up to the second half of the year, powerful arguments against any major changes in monetary policy, despite the great divergence of the majority of the monetary aggregates, and especially the money supply, from the evolution foreseen either explicitly or implicitly in the monetary programme at the beginning of the year. Thus, only in July did the monetary authority participate in the decisions to modify some of the export and import duties. In the area of monetary policy proper, the first measures taken came into effect as from September, when it was decided to increase the interest rates on savings deposits in the commercial banks from 11% to 13% for terms of 90 to 180 days and from 11% to 14% for terms of over 180 days.⁶⁵

Table 27
PARAGUAY: MONETARY BALANCE

	End-year balances in billions of guaraníes				Growth rates			
	1978	1979	1980	1981	1978	1979	1980	1981
Money	39.8	49.5	62.3	62.4	39.3	24.4	25.9	0.1
Currency outside banks	18.7	24.3	31.2	31.2	40.0	30.0	28.2	-0.1
Current account deposits	20.3	23.3	28.6	29.3	39.0	14.7	22.6	2.5
Factors of expansion	96.8	124.4	170.7	202.1	41.0	28.5	37.2	18.4
Net international reserves	55.1	75.9	96.9	102.1	62.3	37.9	27.6	5.4
Domestic credit	41.7	48.5	73.8	100.0	20.3	16.2	52.4	35.5
Public sector	-4.2	-11.0	-8.9	4.4				
Central government (net)	-7.0	-14.0	-16.5	-3.9				
Credit	5.2	5.1	4.7	5.3				
Deposits	-12.2	-19.1	-21.2	-9.2				
Other public bodies	2.8	3.0	7.7	8.3	3.6	6.5	158.0	7.8
Private sector	45.9	59.5	82.7	95.7	35.2	29.5	39.0	15.7
Factors of absorption	57.0	74.9	108.3	139.7	42.4	31.4	44.7	28.9
Quasi-money (saving and time deposits)	38.7	48.0	68.9	94.4	22.5	24.0	43.7	37.0
Long-term foreign borrowing	0.4	0.5	0.5	0.7	-26.9	29.5	-7.9	54.3
Other items (net)	17.9	26.4	39.0	44.6	22.7	47.5	47.6	14.5

Source: International Monetary Fund, International Financial Statistics, vol. XXXV, N° 7.

⁶⁴This ratio had been declining for several years past (see table 23).

⁶⁵The interest rates earned by savings deposits in the savings and loan system for housing were increased from 8% to 10% for terms of 90 to 180 days and from 8% to 11% for terms of more than 180 days. It should be noted that the liabilities and assets of the savings and loan system are subject to "monetary readjustment" fixed by the Central Bank. In 1980, this readjustment was 5%, that is to say, a good deal less than inflation (15%). Loans made by the Stock-raising Fund are also readjustable. In contrast, the liabilities and assets of the commercial banks are not readjusted by the Central Bank.

Table 28

PARAGUAY: DESTINATION, ORIGIN AND FINANCING OF CREDIT

	1975	1976	1977	1978	1979	1980	1981
Growth rates							
Total credit	16.9	14.5	9.9	20.3	16.2	52.4	35.5
Percentage breakdown of variation							
Destination							
Public sector	4.0	-20.9	-93.2	-49.9	-100.0	8.5	50.4
Central government	-12.1	-9.2	-77.7	-71.0	-103.6	-10.0	48.1
Other public bodies	16.1	-11.7	-15.5	1.4	2.7	19.5	2.3
Private sector	96.0	120.9	193.2	169.6	200.9	91.5	49.6
Non-financial	83.4	101.5	204.3	178.0	196.8	92.8	46.8
Financial	12.6	19.4	-11.1	-8.4	4.1	-1.4	2.8
Origin							
Central Bank	10.1	-0.9	-113.2	-63.0	-71.7	18.8	62.4
Commercial banks ^a	-5.1	-2.7	7.1	21.5	5.8	11.9	10.9
Financing							
Liabilities to private sector	209.5	264.2	520.3	401.9	407.8	182.7	118.9
Money	71.4	94.1	224.5	159.4	144.2	50.6	0.3
Quasi-money	31.8	122.6	238.4	100.8	137.5	82.6	97.1
Other net liabilities	6.3	47.5	57.4	141.7	126.1	49.5	18.1
Net foreign assets							
(minus sign indicates an increase)	-103.5	-162.8	-432.0	-299.7	-309.6	-82.5	19.9
Long-term foreign borrowing	-5.6	-1.6	11.6	-2.1	1.8	-0.2	1.0
Counterpart funds	-0.2	-	-	-	-	-	-

Source: ECLA, on the basis of International Monetary Fund, *International Financial Statistics* (various issues).^aWith credit from the Central Bank.

Table 29

PARAGUAY: DESTINATION OF CREDIT GRANTED TO THE PRIVATE SECTOR, BY KIND OF ECONOMIC ACTIVITY^a

	End-year balances (billions of guaraníes)			As a percentage of the gross domestic product ^b			Growth rates		
	1979	1980	1981	1979	1980	1981	1979	1980	1981
Total	77.1	102.8	121.7	20.8	18.3	17.2	24.1	33.5	18.3
Agriculture	24.7	27.8	34.4	32.7	18.8	19.6	8.7	12.4	24.0
Crop farming	15.4	16.4	20.6	33.1	16.2	17.1	3.7	6.8	25.3
Stock-raising	9.3	11.3	13.8 ^c	32.1	24.3	24.9 ^c	18.3	21.6	22.0 ^c
Industry	17.8	23.4	28.5	24.6	18.5	17.2	21.3	31.8	21.6
Manufacturing	16.9	22.2	27.0	27.2	24.0	22.8	21.0	31.2	21.8
Construction	0.9	1.2	1.5	8.9	3.6	3.2	26.3	43.7	18.3
Commerce (domestic)	19.8	30.3	38.1	13.9 ^d	20.9 ^d	20.2 ^d	31.0	52.9	26.0
Exports	10.2	15.2	13.8	16.3	28.4	26.7	55.5	49.9	-9.6
Others	4.5	6.2	6.9				45.9	38.4	11.1

Source: ECLA, on the basis of Central Bank of Paraguay, *Boletín Estadístico* (various issues).^aCredits granted by the National Development Bank, the Stock-raising Fund and commercial banks.^bAt market prices.^cEstimates.^dIncluding financing.

At the same time, the compulsory legal reserve was lowered from the very high figure of 42% to 30% in respect of savings deposits with a term of over 90 days. Furthermore, imports of goods subject to the Regional Trade Régime were freed from the prior deposit requirement.

These measures were not able to bring about any substantial effects in 1981, partly because of the time at which they were carried out and partly because they were relatively marginal in relation to the volume and effective rates of the operations of the financial system. Although a broad range of interest rates are formally fixed by the Central Bank, for example, there are a number of surcharges, discounts and premiums, depending on the circumstances, which mean that the interest rates on deposits and loans in the financial system are generally very different from those laid down by the Central Bank.⁶⁶

At all events, it is not easy to gauge whether, if there had been earlier and larger-scale changes in economic policy in general and monetary policy in particular, these might have meant bigger growth of the money supply in the economy. Indeed, it would seem correct to conclude that larger issue would have been reflected mainly and perhaps even exclusively in a further increase in the surplus reserves of the commercial banks, rather than in a larger amount of cash in the hands of the public, taking account of the prevailing interest rates. At any rate, as already noted, this was what happened in 1981. On the other hand, an appreciable reduction in interest rates, through a big reduction in the legal reserves, for example, might have meant a smaller net inflow of funds (due to a larger outflow rather than to a smaller inflow) of capital into the economy, or else an acceleration in inflation rather than any reactivation of the demand for balances in guaranties, mainly because of the high interest rates prevailing in the international market and the full employment enjoyed by the country's labour force.

On the other hand, if the slowing down of economic activity noted in the second half of 1981 persists, a change in the growth rate of the means of payment would not only be more feasible but also more advisable, especially if external interest rates go down.

⁶⁶Law 561 on the Defence of the National Economy, of October 1958, prohibits the lending of money at interest rates over 12% per year. However, the Central Bank is authorized to permit the charging of annual commissions in addition to the legal maximum rate, as well as the payment of annual bonuses. In practice, the Central Bank has mainly directed its attention towards the interest rates charged under the Minimum Portfolio Régime, which was set up in March 1972 and which provides that commercial banks must assign at least 50% of their portfolio to finance industry (25%), agriculture (5%) and exports (20%). The maximum interest rate, including commission, authorized under this régime at the end of 1981 was 14.5%. The maximum authorized annual interest rates on loans (interest rate, annual commission, servicing rate, servicing commission and monetary readjustment) for the financial system at the end of 1981 varied between 19% (for the 50% of the portfolio of the commercial banks not subject to the Minimum Portfolio Régime and for long-term loans to industry and stock-raising by the National Development Bank) and 28% (for long-term loans by the Stock-raising Fund). There does not appear to be any systematic record of the evolution of the total interest rates really charged in the financial system, but it may be noted that an untitled and undated survey by the Superintendency of Banks revealed that the rates effectively charged varied from a minimum of 25% per year in one financial institution to a maximum of 61% in another (on the same unspecified day in 1981). The average rate for that day was 48%. As regards the interest rates on deposits, the maximum authorized by the Central Bank at the end of 1981 was 14% per year for fixed-term savings deposits for a term of over 180 days. According to the survey already referred to, the minimum interest rate on deposits was 12% per year in one institution, while the maximum was 28% per year in another, the average being 21%.

PERU

1. Recent economic trends: Introduction and summary

In 1981 the Government maintained the essential lines of the general policy applied since the middle of 1980, when it assumed power. This policy consisted of establishing a market economy within the framework of a democracy, thus marking a highly significant change with respect to what had occurred under the previous Government.

In the economic sphere the policy was characterized by three main guiding principles: promotion of the participation of the domestic and foreign private sector, the gradual opening up of the economy, and the struggle against inflation. The first was reflected in the adoption of incentives for domestic and foreign private investment, in an attempt to bring about a gradual reduction in the importance of the public sector, the reduction of price controls, and a more realistic policy of interest rates. The process of adopting the legislation governing private activities was not concluded in 1981, however, and a law for the industrial sector was signally lacking. Nor was the gradual reduction of the public sector's participation achieved, since there was still a high deficit in 1981 (in spite of the balanced budget originally approved), due in part to the delay in the adjustment of some controlled prices, such as those of rice and gasoline. Finally, in 1981 nominal interest rates rose considerably, with an increase from 30% to 50% in January, which for the first time in 11 years caused the passive interest rate to be positive in real terms towards the end of the year. This was reflected in a higher level of saving and of resources available for lending, which, combined with an improvement in the systems for the granting of medium- and long-term credit, created additional facilities for borrowing by the private sector.

The gradual opening up of the economy continued in 1981, although the most important measures were adopted mainly in connection with para-tariff instruments. The effects of the tariff reductions made in 1980, however, were still strongly felt in 1981.

Finally, although the struggle against inflation was perhaps the primary objective of the Government's action, it did not meet with the hoped-for success. Although the growth rate of consumer prices declined in the course of the year, the final result (73%) was the second highest rate ever recorded, and in fact was only lower than that registered in 1978. The effective rate of inflation therefore far exceeded the target (40%) originally established for 1981. The main anti-inflationary instruments used were the unfreezing of prices, negative growth in real terms in the Central Bank's primary issue, promotion of saving through higher interest rates, etc.

The overall result with respect to the productive sphere was the continuation at a moderate rate (4% for the third consecutive year) of the recovery of the gross domestic product after the 1976-1978 recession (see table 1 and figure 1). Consequently, the per capita product increased in 1981, as in the two previous years, by about 1%, regaining its 1977 value. Furthermore, despite the decrease in the growth rate of imports (which none the less remained high), total supply grew by 6% in 1981, as it had done in 1980. On the demand side, the growth rate of exports was negative for the second year in succession (-9%) and that of final domestic demand decreased to 8%. It should be noted, however, that unlike what occurred almost throughout the 1970s (except for 1978 and 1979) and in 1980, the dynamic element in final consumption expenditure was private spending, whose rate of expansion was 12 times that of public consumption.

The construction sector, notwithstanding a considerable decrease in its growth rate in 1981, still ranked first among the sectors which contributed most to the total growth of the product. This was basically achieved thanks to the Government's activities in the construction of roads,

dwellings, etc. A striking feature, however, was the performance of the agricultural sector. Thus, owing to the end of a prolonged drought and to the effects of government policies, in 1981 the product of this sector grew by around 11%, after a 6% drop in 1980. This growth rate for agriculture was the highest attained in the last three decades. The manufacturing sector, for its part, showed fairly moderate growth (2%), lower than that of the two preceding years. Finally, the mining sector suffered a decline of 4%.

Although the value of exports of goods had increased steadily since 1972, with the sole exception of 1975, in 1981 it fell by 17%. There were considerable drops in the volumes exported and significant decreases in world prices. Indeed, the only important product whose export value rose in 1981 was zinc.

Table 1

PERU: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of dollars at 1970 prices)	11 097	11 091	11 035	11 491	11 932	12 402
Population (millions of inhabitants)	15.8	16.3	16.7	17.2	17.6	18.1
Per capita gross domestic product (1970 dollars)	702	683	661	670	677	684
Growth rates						
B. Short-run economic indicators						
Gross domestic product	2.0	-0.1	-0.5	4.1	3.8	3.9
Per capita gross domestic product	-0.7	-2.7	-3.1	1.3	1.0	1.1
Gross income ^b	2.1	-0.4	-1.9	7.2	3.7	3.9
Terms of trade (goods and services)	1.2	-4.2	-11.2	25.2	11.7	-9.5
Current value of exports of goods and services	3.3	22.1	12.6	69.7	14.1	-14.4
Current value of imports of goods and services	-13.6	2.4	-23.1	27.0	47.7	28.6
Consumer prices						
December - December	44.7	32.4	73.7	66.7	60.8	72.7
Variation between annual average	33.5	38.1	57.8	67.7	59.2	75.4
Money	25.3	27.1	43.9	78.5	71.9	47.8
Real remuneration ^c						
Salaries	-5.9	-18.1	-14.8	-8.4	10.2	-0.3
Wages	11.3	-18.4	-12.5	-3.4	12.4	-1.8
Rate of unemployment ^{d,e}	6.9	8.4	8.0	6.5	7.1	6.8
Current income of government	26.7	38.3	71.1	109.4	84.6	49.3
Total expenditure of government	33.9	51.8	61.0	69.4	88.1	66.1
Fiscal deficit/total expenditure of government ^d	36.7	42.3	38.7	24.2	25.6	33.1
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-882	-559	330	1 441	763	-1 013
Balance on current account	-1 249	-976	-245	496	-72	-1 873
Variation in international reserves	-312	69	26	1 045	722	-584
External debt ^f	7 301	8 397	9 055	9 127	9 387	9 862

Source: ECLA, on the basis of official figures.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cSee table 18 for the month considered in each year.

^dPercentages.

^edata for Metropolitan Lima. See table 9 for the month considered in each year.

^fTotal short- and long-term external debt, both public and private.

In contrast, the value of imports of goods increased by more than a quarter, for the third consecutive year, in 1981. This brought it to nearly two-and-a-half times the value recorded in 1978, and was the result of the important foreign trade liberalization measures adopted in 1980, and on a lesser scale in 1981. The delay in adjusting the exchange rate for the sol and the increased value of the dollar, combined with the reactivation of domestic demand, were other factors influencing the above-mentioned result.

In this way, the balance of trade in goods changed from a surplus of over US\$ 800 million in 1980 to a deficit of more than US\$ 600 million in 1981. Added to this was a deficit in the balance of trade in non-financial services which in 1981 was five times greater than in 1980. Thus, the trade balance showed a deficit in 1981 for the first time since 1977. Mainly owing to this, the current account deficit multiplied 25-fold in 1981 to nearly US\$ 1.9 billion (see table 1 and figure 1).

Despite the substantial increase in long-term capital inflows, the basic balance changed from a surplus in 1980 to a large deficit in 1981. The final result, therefore, was a decrease of nearly US\$ 600 million in the net international reserves, following the considerable increases in 1979 and 1980.

Real liquidity declined somewhat (-3%) in 1981, after growing rapidly in the two preceding years. This decrease helped to keep the inflation problem from becoming more acute. The real quantity of money dropped substantially, with a fall in both money outside banks and demand deposits. In contrast, quasi-money grew 5% in real terms thanks to the significant increase (32%) which took place in time and savings deposits in national currency as a result of the change in interest rates. At the same time, the process of "dollarization" of the economy was slowed down for the first time, with the fall of 19%, in real terms, in foreign currency deposits.

As regards sources of liquidity, there was a sharp increase in domestic credit which was offset by the drop in net international reserves. The growth of credit to the private sector was especially rapid, since it increased by 14% in real terms, i.e., twice the rate of increase of credit to the public sector.

The result of fiscal operations was very different from that foreseen in the 1981 budget, for although central government expenditure was reduced by a little over 5% in real terms, income declined by 15%. There were decreases in both current and capital expenditure, but expenditure both on wages and salaries and on gross public capital formation expanded. As regards public income, all tax revenue except that obtained from import taxes went down in real terms. Consequently, central government current saving practically disappeared, after two years in which it had shown a positive trend. Thus, the fiscal deficit more than doubled in nominal terms and attained a real growth of 23%.

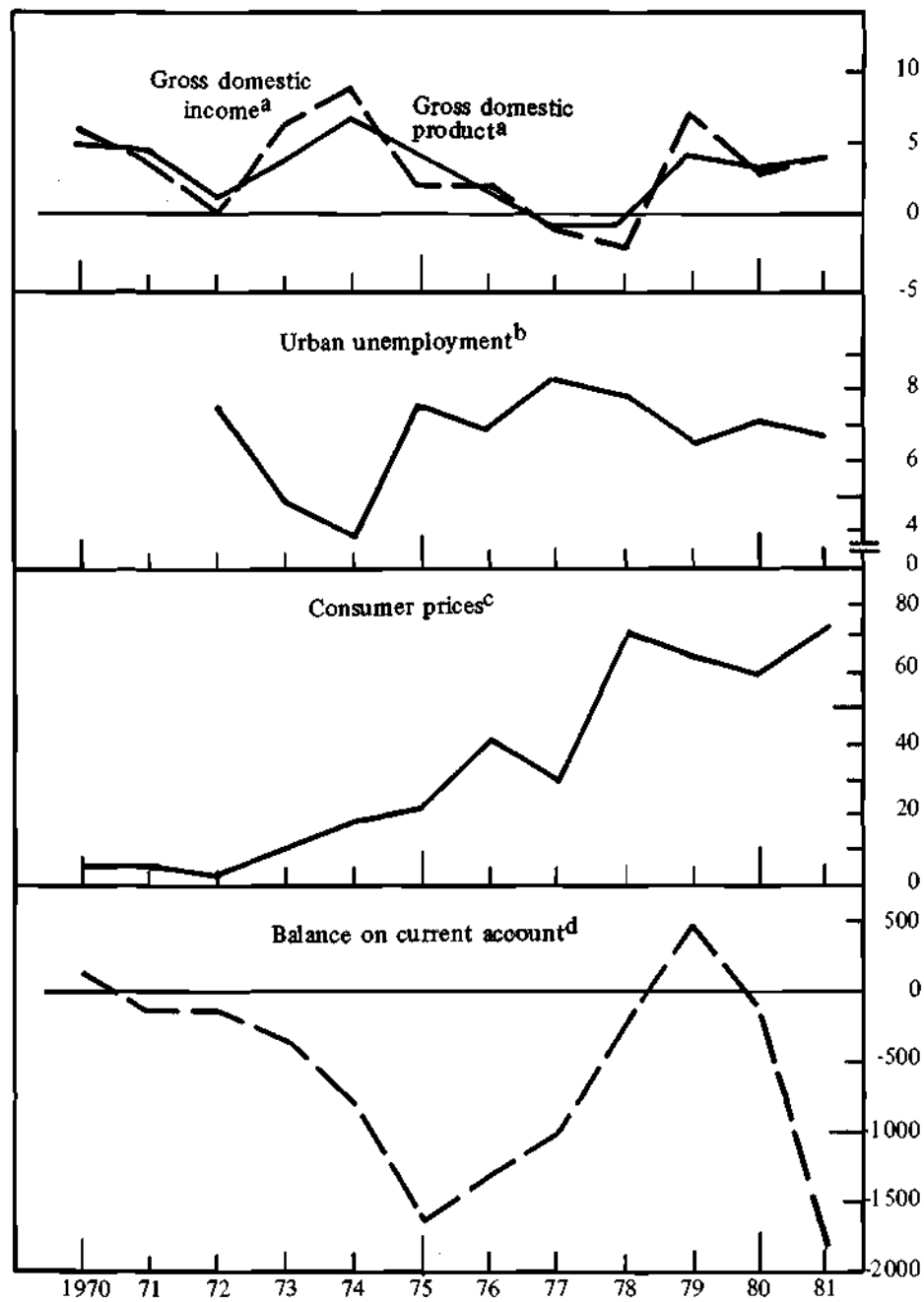
2. Trends in economic activity

(a) *Total supply and demand*

Total supply grew 6% in 1981, thus completing three years of economic recovery (see table 2) during which the average annual growth rate of supply was 5.7%: very similar to the average annual rate for the years 1960-1975 (5.2%). In the period of economic recession (1976-1978) this rate had fallen to -1.2%.

The main component of total supply, i.e., the gross domestic product, increased for the third consecutive year by close to 4%, after having fallen in 1977 and 1978. Thus, the Peruvian economy continued to overcome the recession experienced in those years and to approach the average annual growth rate of the gross domestic product registered during the fifteen years before the recession (4.9%). The growth rate of imports, for its part, although declining significantly to 24%, remained at a high level in 1981 and imports represented 15% of the gross domestic product: a proportion which has increased steadily from close to 9% in 1978. The marked expansion of imports was due to the abnormally low level to which they had descended in 1978 as a result of the domestic recession (equivalent to their real value in 1965), the subsequent economic recovery, and the policy of trade liberalization.

Figure 1
PERU: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate in Metropolitan Lima.

^cPercentage variation from December to December.

^dMillions of dollars.

As regards global demand, domestic final demand increased for the third consecutive year after having dropped by 2.5% annually in the period 1976-1978. The expansion in 1981 was due primarily to an 18% rise in gross fixed investment, although in spite of this, and of its growth of 45% in 1980, its real value in 1981 was still below that attained in 1975. Consumption expenditure, too, increased for the third year in succession. Private expenditure was especially dynamic, increasing by 7% in 1981: a rate surpassed only by that recorded in 1970. The final consumption expenditure of the public sector, on the other hand, expanded by less than 1% in 1981, after having risen by 13% in the previous year. It is interesting to note that between 1970 and 1981 public expenditure, as a percentage of total consumption expenditure, only rose from 14% to 16%, despite the importance given to the State in economic policy during the 1970s and the large fiscal deficits of the last few years.

Finally, the value of exports of goods and services fell by 9% in 1981. The decrease in the export volume of all traditional export products except coffee, silver and zinc was one of the causes of this decline, together with the fall in world prices.

(b) *Evolution of the main sectors*

Following a 5% drop in 1980, the product of the agricultural and fishery sector rose at an exceptionally high rate of close to 11% in 1981. Construction, as in 1980, was the most dynamic sector during the year, while the services sector also contributed to the growth of the gross domestic product at a rate above the average. The mining sector, however, showed a negative rate of growth, while the expansion of the manufacturing sector was below the average (see table 3).

(i) *The agricultural sector.* The expansion of production in the agricultural sector in 1981 (13%) represented a sharp contrast with the trend in 1980, when the growth rate was negative (-5%). It should be noted that agricultural production in the period 1974-1980 practically stagnated, whereas the growth obtained in 1981 was the highest recorded in the agricultural sector in the last three decades.

The crop farming subsector's contribution to the agricultural sector's expansion was particularly important (see table 4). Its output grew by 14% in 1981, after a 10% drop in the preceding year. Various factors contributed to this. In the first place, 1981 saw the end of the acute drought which had affected Peruvian agriculture for a number of years. The flow of the rivers in the northern part of the country (the area most affected by the drought) increased by 46% in the first half of 1981 with respect to 1980, rising to a level only 5% less than the average flow in the period 1973-1976, which was considered normal.

The end of the drought made it possible to increase the area sown, and in 1981 this exceeded one million hectares: a 14% increase over 1980. The area sown with potatoes increased by 20%, that sown with flour corn 18% and that used for cotton growing by 16%. Also as a result of the end of the drought, there was an improvement in crop yields per hectare in 1981, and in the period January-September, with respect to the same period of 1980, the yield per hectare of potatoes increased by 19%, that of soya beans by 20%, that of hard yellow maize by 15%, and so forth.

The increase in agricultural production was also partly due to policy measures adopted by the Government. First of all, in April reductions were decreed in the tariffs applied to inputs and capital goods for agriculture. Secondly, the sector was given considerable credit support in 1981. Additional resources were granted to the Banco Agrario, and the Banco Central de Reserva opened two promotional credit lines to finance agricultural cropping projects and medium- and long-term investments. The commodities for which the major part of the credit was granted in the period January-September 1981 were rice (47%), cotton (17%) and potatoes (12%). It should also be noted that real credit to the agricultural sector grew by 18% between June and December 1980, and this too had a big influence on the better 1981 harvest.

These factors were reflected in the consumption of fertilizers, which increased by 8.5% in 1981 after having gone down at an average annual rate of nearly 6% between 1978 and 1980. Even so, however, fertilizer consumption remained 10% lower in 1981 than in 1977.

The most dynamic agricultural commodities in 1981 were rice, wheat and soya beans. Production of rice grew by nearly 70%, after dropping by 25% in 1980. Wheat production, for its part, expanded by more than 50% after having declined in the four previous years. Soya beans, although of little importance in crop farming output as a whole, were the most dynamic commodity between 1978 and 1981 since, after the growth rates of over 50% achieved in their production between 1978 and 1980, a fairly high rate of increase was maintained in 1981 (31%).

Production of potatoes, which are the main agricultural commodity (14% of the total value of crop farming output) grew by 22%, after a decrease of 20% in 1980. In the period 1973-1979 the production of this crop virtually stagnated.

Sugar cane was the only crop whose production decreased in 1981 (-6%). It had been declining since 1975, except in 1977 when it remained stationary. In 1981 the production of sugar cane was equal to only 60% of the 1973 output. This was partly due to the drought and the slow period of growth of the crop (15-18 months), which makes its recovery slower than that of other crops. The decline in output was also due to administrative and financial difficulties in the production units.

Livestock-raising showed a growth rate of nearly 11%, after an increase of less than 3% in 1980 and declines in 1978 and 1979 (see table 4). The most dynamic item was poultry meat, which grew by 27% in 1981 after the 21% increase registered the year before, thus bringing its production to more than twice the level of 1973. Output of beef rose by 8% in 1981, after declining in 1979 and 1980 and growing at fairly modest rates between 1975 and 1978. The only item showing a decrease was the production of mutton, which fell by 9% for the second year running.

(ii) *The fisheries sector.* The value of fisheries production dropped in 1981 as it did in 1980 but at twice the rate (-10%). This was due, first, to the greater scarcity of fisheries resources, partly owing to the excessive growth of the catch in previous years, which in turn has created problems of over-expansion of the industry.

Table 2

PERU: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	12 619	13 407	14 227	110.7	114.7	4.6	6.2	6.1
Gross domestic product at market prices	11 491	11 932	12 402	100.0	100.0	4.1	3.8	3.9
Imports of goods and services ^b	1 129	1 475	1 825	10.7	14.1	9.7	30.7	23.7
Total demand	12 619	13 407	14 227	110.7	114.7	4.6	6.2	6.1
Domestic demand	11 032	11 972	12 920	98.5	104.2	3.0	8.5	7.9
Gross domestic investment	1 290	1 866	2 198	14.6	17.7	1.8	44.6	17.8
Gross fixed investment	1 444	1 890	2 180	13.8	17.6	4.9	30.9	15.3
Construction	801	1 043	...	7.0	...	2.5	30.1	...
Machinery and equipment	643	847	...	6.8	...	8.2	31.8	...
Changes in stocks	-154	-24	18	0.8	0.1	...	...	...
Total consumption	9 742	10 106	10 723	83.9	86.5	3.2	3.7	6.1
General government	1 507	1 701	1 711	11.6	13.8	-6.0	12.9	0.6
Private	8 235	8 405	9 012	72.3	72.7	5.1	2.1	7.2
Exports of goods and services ^b	1 587	1 436	1 307	12.2	10.5	17.1	-9.5	-8.9

Source: ECLA, on the basis of figures supplied by the National Institute of Statistics.

^a Preliminary figures.

^b The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by ECLA for the purpose.

Table 3

**PERU: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product^b	10 542	10 946	11 378	100.0	100.0	4.1	3.8	3.9
Goods	4 891	5 005	5 201	47.0	44.1	5.2	2.3	6.3
Agriculture, hunting, forestry and fishing	1 438	1 358	1 503	16.4	12.8	4.5	-5.6	10.7
Mining and quarrying	901	904	867	6.6	7.3	9.1	0.4	-4.1
Manufacturing	2 209	2 336	2 378	20.8	20.2	4.2	5.7	1.8
Construction	343	408	453	3.2	3.8	4.6	18.8	11.0
Basic services	953	1 022	1 079	6.6	9.1	5.2	7.3	5.6
Electricity, gas and water	156	164	175	0.9	1.5	7.2	5.5	6.5
Transport, storage and communications	797	857	904	5.7	7.6	4.8	7.6	5.5
Other services	5 145	5 372	5 594	44.9	47.4	2.8	4.4	4.1
Wholesale and retail trade, restaurants and hotels	1 548	1 639	1 732	13.9	14.7	5.2	5.9	5.7
Financial institutions, insurance, real estate and business services	1 387	1 446	1 508	11.9	12.8	2.8	4.2	4.3
Ownership of dwellings	...	...	...	6.8	...	...	...	...
Community, social and personal services	2 210	2 287	2 354	19.1	19.9	1.2	3.5	2.9
Government services	1 220	1 276	1 319	10.0	11.2	0.4	4.6	3.4
Less: Imputed commission of banks and financial institutions	212	241	274	1.7	2.3	4.4	13.9	13.6
Plus: Import duties	141	179	206	3.2	1.7	7.4	27.3	15.2

Source: ECLA, on the basis of figures supplied by the National Institute of Statistics.

^a Preliminary figures.

^b As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

Secondly, a policy of conservation of marine species was implemented in 1981. Close seasons were strictly imposed and considerable emphasis was placed on the regulations governing fishery activities. Trawl fishing was restricted and the areas of operation of factory-ships were limited so as to prevent competition with artisanal fishing.

Thirdly, a number of factors made export activities less profitable, which also influenced the volume of the catch. The rate of devaluation was not sufficiently rapid, added to which was the increased value of the dollar; the reduction of export tax refunds; and, lastly, problems in connection with external demand owing to both the world recession and competition from other countries (Chile, Japan, etc.).

The volume of the catch in 1981, as distinct from its real value, showed very little change (less than 1%), after decreasing by 26% in 1980 (see table 5). Between 1973 and 1979 the volume caught had risen by an average of 8% annually. The difference observed in 1981 between the evolution of the value of fisheries output mentioned above and its volume was mainly due to the performance of fishing for indirect human consumption, for although the volume rose by nearly 6%, its value dropped by 5% as a result of the significant fall in the catch of species other than anchoveta. In the case of fishing for direct human consumption, the value of the catch fell by 12% in 1981, that is to say, a little more than the rate of decrease in the volume (-9%).

The 6% increase in the tonnage extracted for indirect human consumption in 1981 was mainly due to a 70% increase in the catch of anchoveta, following a decrease of nearly 50% in the previous year. This counteracted the sharp fall in the catch of other species (-41%), which occurred for the third consecutive year.

The 9% drop in the tonnage caught for direct human consumption interrupted its exceptional expansion in the period 1975-1980, during which it grew at an average of 27% annually. The 57% decline in the catch for freezing was particularly significant, contrasting with the expansion at an average annual rate of 20% between 1977 and 1980. The catch of fresh fish rose by 6%, as did that for the canning industry, although it should be noted that the latter had decreased by an average of 52% annually in the period 1978-1980.

In 1981 important policy measures were adopted in the fisheries sector, such as those relating to fishing for the canning industry and for the supply of fresh fish. In the former case measures were taken to rationalize the existing excess installed capacity, especially by prohibiting the establishment of new canning plants or the expansion of those in existence. In the case of fresh fish, the Government began to take initial steps to promote investment in the fishing fleet and in fish processing installations with a view to expanding the supply of this product on the domestic market. At the same time, PESCAPERU, the public enterprise operating in the sector, will gradually cease to produce fish meal, which will be manufactured only from fish not suitable for direct human consumption and from residues; it will also launch a programme for the diversification of fisheries products. This enterprise plans to reduce its fish meal plants from 37 to 19 (in 1973, the date of the expropriations, they numbered 99). Finally, in 1981 the State monopoly (exercised by PESCAPERU) in the production and export of fish meal was abolished.

(iii) *The mining sector.* The negative performance shown by the mining sector in 1980 was accentuated in 1981, with a drop of more than 4% in the value of its production. As regards the metal-mining subsector, various factors were responsible for the fall in its production. In the first place, the mining enterprises experienced financial problems as a result of the drop in world prices

Table 4

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Indexes of agricultural production (1973 = 100)	106.8	103.6	106.8	101.0	113.8	-3.0	3.1	-5.4	12.7
Crop farming	97.7	95.6	101.0	91.0	103.8	-2.1	5.5	-9.9	14.1
Stock-raising	122.2	116.7	115.5	118.5	131.1	-4.5	-1.0	2.6	10.6
Production of the main crops ^b									
Potatoes	1 580	1 713	1 716	1 380	1 679	8.4	0.2	-19.6	21.7
Rice	587	468	558	420	712	-20.3	19.2	-24.6	69.4
Cotton	176	187	243	256	286	6.4	29.9	5.4	11.5
Coffee	65	83	104	95	95	27.5	25.2	-8.5	0.0
Maize	749	623	646	453	586	-16.5	3.3	-30.0	29.4
Sugar cane	8 816	7 970	7 034	5 598	5 279	-9.6	-11.7	-20.4	-5.7
Beans	47	42	42	39	44	-10.2	0.2	-7.1	10.9
Wheat	120	113	104	77	119	-6.3	-7.2	-26.1	53.8
Sorghum	51	52	54	35	44	1.2	3.6	-35.1	26.6
Soya beans	3	5	7	11	14	50.2	57.8	50.7	30.8
Production of the main livestock products ^b									
Poultry meat	143	119	118	144	183	-17.0	-0.2	21.2	27.2
Fresh milk	820	822	824	780	785	0.2	0.2	-5.3	0.6
Beef	87	89	87	84	90	2.3	-2.7	-3.2	7.5
Eggs	56	58	55	60	64	3.6	-4.7	8.5	6.3
Pork	54	53	53	55	59	-1.9	-0.9	4.8	7.6
Mutton	23	23	23	21	19	0.0	0.9	-8.8	-9.2

Source: Ministry of Agriculture.

^aPreliminary figures.

^bThousands of tons.

Table 5

PERU: INDICATORS OF FISHERY PRODUCTION

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Value of fishery production (1973 = 100)	132.3	172.1	188.5	178.8	160.8	30.1	9.5	-5.1	-10.1
Total output of fishery product ^b	2 491	3 431	3 640	2 697	2 710	37.7	6.1	-25.9	0.5
For direct human consumption ^b	474	619	758	971	888	30.6	22.5	28.1	-8.5
Fresh fish	169	176	177	156	165	3.8	0.4	-11.9	6.2
For freezing	128	191	201	220	95	49.5	5.1	9.6	-57.0
For canning	160	238	345	567	600	48.4	45.2	64.2	5.9
For drying and salting	17	14	35	28	28	-13.3	146.2	-19.6	-2.1
For indirect human consumption ^b	2 017	2 812	2 882	1 726	1 822	39.4	2.5	-40.1	5.5
Anchoveta	792	1 187	1 363	720	1 227	49.9	14.8	-47.2	70.4
Other species	1 225	1 625	1 519	1 006	595	32.6	-6.5	-33.8	-40.9

Source: Ministry of Fisheries.

^aPreliminary figures.^bThousands of tons.

of the main export minerals caused by the world recession and high interest rates. The declines in the prices of lead, silver and copper were especially severe.

Secondly, labour disputes in the mining sector in 1981 had a highly negative effect on production levels. In the course of the year there were 156 disputes, i.e., 33 more than the year before, but the number of man/hours lost (nearly 6 million) was double the 1980 level. Thus, for example, the 40-day strike in the Southern Peru Copper Corporation in August and September caused production losses of US\$ 65 million.

Thirdly, there were production problems of a technical nature which were largely due to difficulties in connection with the supply of fuel to the principal mining centres because the access roads were blocked owing to damage by the floods in the early months of the year. Furthermore, in the case of copper there was a decrease in the grade of the ore extracted.

Because of all these factors, the value of the production of the metal-mining sector contracted by 6% in 1981, after decreasing by 4% in the previous year. This was due, in particular, to the decrease in the volume of copper output (see table 6), which fell for the second consecutive year, sinking to a level similar to that of 1977, although even so, copper production in 1981 was over 50% more than in 1974. Nevertheless (mainly because of the expansion of petroleum output), the relative importance of copper production in total mining sector output dropped from 52% in 1977 to 43% in 1981.

The volume of lead production also decreased, though very slightly (-1%), after showing positive growth rates for several years. Production of iron ore expanded by 7% in 1981 and that of silver by 5% (see table 6).

Petroleum output fell by a little over 1% in 1981. Exceptionally high annual rates of 36% had been registered between 1977 and 1979, but already in 1980 the increase had sunk to only 2%.¹ (See table 6.) The drop in petroleum production in 1981 was due to a number of difficulties. First, there were setbacks in the secondary recovery activities of PETROPERU. Secondly, technical problems were encountered in the transport of crude, as difficulties arose in the northern branch of the oil pipeline and in river transport, the latter caused by a bigger fall than originally expected in the flow of the jungle rivers.

¹Owing to the importance of this item in total mining output, however, the decline it suffered in 1981 represented 8% of the total drop in the value of mining production.

As regards Government policy on the mining and petroleum sector, it should be noted that government efforts to promote the participation of the private sector, both national and foreign, were more pronounced. The General Mining Law was enacted in 1981, and the law on the petroleum sector had already been enacted in the last week of 1980. These both comprise a number of promotional measures and tax exemptions for investors in the sectors involved. As a result of the second of these laws, several contracts were signed in 1981 with foreign oil companies such as Superior Oil of the United States, and reinvestment by companies already established in Peru increased. In addition, the State monopoly over the external marketing of minerals was eliminated during the year and a progressive decrease in the 17.5% tax on mining exports began to be implemented.

(iv) *Manufacturing.* The growth rate of the manufacturing sector in 1981 (a little over 2%) was lower than those attained in 1979 and 1980 (4% and 6%, respectively). Owing to these low rates of growth and the economic recession in the preceding years, manufacturing output in 1981 was only 28% higher than in 1973.

Certain factors related to the external trade policy were partly responsible for the lack of dynamism shown by the sector in 1981. In the first place, manufacturing suffered the effect of the opening up of trade, which permitted the entry into the country of a number of low-priced products, or products considered by the consumer to be of better quality. Particularly notable were the cases of textile products, automobiles, electronic products, toys, etc. At the same time the activities of industries providing other enterprises with inputs, such as those producing motor-vehicle parts, decreased with the decline in the latter industries. Moreover, the decrease in tax incentives to export activities owing to the reduction or elimination of the CERTEX tax refund certificates generated negative effects since it reduced the rate of return of export activities, which were also affected by the increased overvaluation of the sol.

Secondly, there were internal reasons also. Thus, there was a drop in the supply of certain raw materials such as fish, petroleum, sugar and minerals. Furthermore, in 1981 the rules governing the manufacturing sector and laying down its relative importance could not be clearly defined for want of a new law to regulate manufacturing activities. This situation of uncertainty was reflected in the drop in authorized investment in the sector in 1981 both in nominal terms (-7%) and in real terms (almost -50%). It should be noted, however, that in spite of the fact that some industries such as beverages and rubber were affected by labour disputes, on the whole these disputes were

Table 6
PERU: INDICATORS OF MINING PRODUCTION

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Index of mining production (1977 = 100)	100.0	115.0	126.8	123.3	117.9	15.0	10.3	-2.7	-4.4
Metal mining									
Copper ^b	336	376	397	367	328	11.9	5.5	-7.7	-10.7
Lead ^b	178	183	184	189	187	2.4	0.7	2.8	-1.3
Silver ^c	1 298	1 337	1 364	1 392	1 460	2.9	2.1	2.0	4.9
Zinc ^b	477	458	491	488	497	-4.0	7.3	-0.7	1.9
Iron ore ^b	4 033	3 275	3 622	3 780	4 034	-18.8	10.6	4.4	6.7
Non-metallic mining									
Petroleum ^d	33.3	55.1	70.0	71.4	70.4	65.5	27.0	2.0	-1.3

Source: Ministry of Energy and Mining and Banco Central de Reserva del Perú.

^aPreliminary figures.

^bThousands of tons.

^cTons.

^dMillions of barrels.

less serious in 1981 than in the preceding year. Although the strikes in the sector increased from 361 to 403, they involved 17% fewer workers, while the number of man/hours lost fell by more than 40%.

Among the manufacturing subsectors the most rapid growth was shown by textiles, clothing and leather, followed by the metal products and machinery industry. The former expanded by nearly 8%, after falling by slightly less than 2% in 1980. A great deal of this recovery is attributable to the textile subsector, which after a 5% drop in 1980 grew by nearly 10% in 1981. This expansion, obtained in spite of the policy of opening up trade and reducing export incentives, was largely due to the fact that in 1980 the output of textiles had fallen owing to a major strike. Thus, production in 1981 was still only 4% higher than in 1979. Output of footwear declined by over 12%, after a rise of more than 17% in 1980, and production of this item in 1981 was 26% lower than in 1973 (see table 7).

The metal products and machinery subsector expanded by 7% in 1981, thus pursuing the upward trend initiated with its 24% growth in 1980. The most dynamic item was transport equipment which, with a 20% rise in 1981, completed an increase of more than 100% between 1978 and that year. Even so, because of considerable declines in production in previous years (especially 1977 and 1978), output in 1981 was still only equal to four-fifths of the 1973 figure. Electrical and non-electrical machinery for their part grew by 9% and 7%, respectively. Production only declined in the manufacture of metal products other than machinery (4%), after an increase of more than 19% in 1980. The four items mentioned above constitute Peru's capital goods industry.

The subsectors in which production dropped in 1981 were paper and printing (by over 3%, mainly because of the fall in paper production) and the basic metal products industry, which likewise contracted by more than 3%, owing above all to problems in the supply of raw materials.

The food, beverages and tobacco subsector remained practically stationary, largely as a result of the decrease in the production of sugar. The non-metallic minerals subsector also grew very little, owing especially to the 10% decline in the glass industry.

(v) *The construction sector.* For the second year in succession, construction was the most dynamic sector of the economy, growing by 11% in 1981. This rate, however, represented a marked decrease with respect to the 19% obtained in 1980. A key factor contributing to this dynamism in 1981 was government investment expenditure, on both housing and roads.

In 1981 the general index of sales of construction materials continued to increase for the third year running. The year marked significant increases in sales of non-metallic mineral products (25%) and basic iron and steel products (20%). Sales of cement grew by 6.3%, totalling 2.3 million tons (see table 8).

(c) *Evolution of employment and unemployment*

If June 1981 is compared with April 1980 it will be noted that the labour situation in Metropolitan Lima remained basically unchanged. Thus, in April 1980 adequately employed manpower constituted 66.9% of the economically active population, while in June 1981 the figure was only half a percentage point less (see table 9). This contrasted with the substantial improvements registered in 1979 and 1980, following the sharp fall in 1978. In the period July-August of that year, those adequately employed numbered only 53% of the economically active population of Lima.

There was a slight increase in underemployment from 26% to nearly 27% of the economically active population. This was entirely in terms of the number of hours worked, since underemployment as reflected in income problems declined in relative terms. Unemployment in Metropolitan Lima dropped from 7.1% in April 1980 to 6.8% in June 1981.

At the national level, it is estimated that some 200 000 new jobs were created in 1981, about 71 000 of which were in Metropolitan Lima.

In 1981 the number of workers involved in strikes increased significantly (34%), but the number of man/hours lost rose by only 3%. The reasons for the strikes included the rise in the cost

of living and regional or local factors. Although the workers striking for these reasons represented only 2.7% of the total number involved in strikes in 1980, the percentage rose to 49.1% in 1981.

The number of workers striking because of the rise in the cost of living was over 20 times higher in 1981, owing in particular to the expectations which the new Government created with respect to the reduction of inflation in the course of the year, which did not materialize. The number of workers striking on account of regional or local factors, for their part, increased more than 40-fold. The main reason was the splitting-up of two provinces in the department of Loreto in order to create the new department of Ucayali. Another notable feature was the considerable decrease in the number of workers involved in strikes in connection with the establishment of wages and salaries in collective bargaining and the reinstatement of workers (25% and 45%, respectively).

Table 7

PERU: INDEX OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of manufacturing production								
Manufacturing sector ^b	112.5	116.8	...	...	-4.8	3.8	...	...
Manufacturing sector ^c	113.8	118.2	125.3	128.2	-3.6	3.9	6.0	2.3
Consumer goods^d	100.8	104.3	...	...	-4.5	3.5	...	...
Food	101.2	101.2	107.7	106.9	-4.1	-	6.4	-0.7
Beverages	120.1	131.3	145.2	147.4	-11.0	9.3	10.6	1.5
Tobacco	106.1	116.7	128.4	...	-8.8	10.0	10.0	...
Textiles	106.4	113.4	108.0	118.4	8.8	6.6	-4.8	9.6
Clothing	73.4	68.2	72.0	...	-20.4	-7.1	5.6	...
Footwear	76.0	72.1	84.6	74.2	-6.2	-5.1	17.3	-12.3
Furniture	61.4	57.7	65.3	...	-14.8	-6.0	13.2	...
Printing	68.7	54.7	65.5	69.8	-7.8	-20.4	19.7	6.6
Plastic products	99.6	114.2	124.9	...	-8.8	14.7	9.4	...
Vocational equipment	112.6	98.1	110.5	...	2.7	-12.9	12.6	...
Miscellaneous products	84.8	81.3	88.8	...	-8.5	-4.1	9.2	...
Intermediate goods^{bd}	137.3	144.8	...	...	-1.0	5.5	...	...
Intermediate goods^{cd}	138.7	146.2	...	...	1.4	5.4	...	...
Fish meal	154.5	161.6	107.7	112.8	34.6	4.6	-33.4	4.7
Leather	88.9	85.1	102.3	...	-2.4	-4.3	20.2	...
Wood	138.4	133.2	122.1	...	-1.6	-3.8	-8.3	...
Paper	105.4	99.6	118.8	104.8	-15.1	-5.5	19.3	-11.8
Industrial chemicals	167.8	175.5	184.7	179.6	7.6	4.6	5.2	-2.8
Other chemicals	126.7	113.8	134.4	144.1	2.9	-10.2	18.1	7.2
Petroleum refining	114.0	132.2	136.1	142.9	-1.6	16.0	2.9	5.0
Rubber	101.4	109.5	132.8	139.7	-9.1	8.0	21.3	5.2
China and porcelain	140.3	121.9	114.0	...	-5.2	-13.1	-6.5	...
Glass	96.2	114.0	117.6	105.4	-20.2	18.5	3.2	-10.4
Non-metallic minerals	113.7	114.3	128.7	133.8	-3.2	0.5	12.6	4.0
Basic metal products	131.2	138.9	156.0	152.9	6.4	5.9	12.3	-2.0
Basic non-ferrous metal products	182.0	212.8	200.9	193.5	-1.7	16.9	-6.6	-3.7
Capital goods^d	93.2	92.3	...	...	-16.9	-1.0	...	...
Metal products	97.0	92.0	109.8	105.4	-6.4	-5.2	19.3	-4.0
Machinery and equipment	122.3	134.6	163.1	173.7	-13.9	10.1	21.2	6.5
Electrical machinery and equipment	125.7	115.1	135.4	147.6	-10.8	-8.4	17.6	9.0
Transport equipment	38.4	43.4	67.1	80.6	-46.8	13.0	54.6	20.1

Source: Banco Central de Reserva del Perú, and Ministry of Industry, Commerce, Tourism and integration.

^aPreliminary figures.

^bExcluding fish meal.

^cIncluding fish meal.

^dIndustries mainly but not exclusively producing this type of goods.

Table 8

PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Index of volume of main construction materials (1977 = 100)	100.0	85.2	89.4	102.6	107.9	-14.8	4.9	14.8	5.2
Domestic sales of some construction materials ^b									
Iron bars for building	125.1	123.0	138.8	140.3	208.2	-1.7	12.9	1.0	48.4
Cement	1 925.6	1 772.8	1 834.8	2 168.7	2 305.3	-7.9	3.5	18.2	6.3

Source: Banco Central de Reserva del Perú and National Institute of Statistics.

^aPreliminary figures.

^bThousands of tons.

3. The external sector

After a highly favourable performance in 1979 and 1980, the balance of payments showed a sizeable deficit in 1981. The merchandise trade results were a decisive factor in this respect, with exports decreasing by US\$ 680 million as a result of a decline in both their volume and unit value (see table 10). In the case of imports, their value grew by nearly US\$ 790 million as a result of increases in both their volume and unit value, thus generating a trade deficit for the first time since 1977. Since at the same time the deficit on financial and non-financial services transactions rose by more than US\$ 330 million, the current account balance was converted from a small deficit of about US\$ 70 million in 1980 to a heavy negative balance of nearly US\$ 1.9 billion in 1981.

This deficit was largely financed with movements of long-term capital, which in 1981 amounted to close on US\$ 870 million, or nearly 90% more than the 1980 figure. The increase in petroleum investment in response to the incentives given and the greater dynamism of private activities in general considerably influenced this result.

The rest of the deficit was financed by reducing the net international reserves to the level of about US\$ 700 million in December 1981: a fall of nearly US\$ 600 million following the growth of US\$ 750 million in 1980 and over US\$ 1.1 billion in 1979. The decrease in 1981 was due in part to an advance payment of US\$ 377 million made in April on the external debt, but in any case it was adversely affected by the performance of trade in goods and services.

The external trade liberalization policy continued in 1981. In December of that year the average tariff stood at 32% after having been 69% in 1976, 40% in 1979 and 34% in December 1980. There were reductions in 1981 in the tariffs applicable to inputs and capital goods for the manufacturing, agricultural and transport sectors, and changes in para-tariff instruments. Furthermore, the rationalization of the system of tax refunds for non-traditional exports also continued during the year, eliminating them in some cases, improving their administration and lowering the rates. At the same time, the tax burden in respect of traditional exports was reduced.

As regards foreign exchange policy, the programme of daily minidevaluations decreed by the Banco Central de Reserva del Perú (mainly in accordance with the purchasing power parity formula) continued. At the end of 1981 the exchange rate of the sol with respect to the dollar was 507, having been 341 at the end of 1980 (i.e., a devaluation of 49% in the year).

The minidevaluations programme, however, did not manage to prevent the continued overvaluation of the sol for the third consecutive year. In fact, examination of the index of the effective real exchange rate for exports² shows that this rate dropped by 14% in 1981 after having

²This index is calculated by taking into account the nominal exchange rate of the sol with respect to the currencies of the main countries to which Peru exports, their respective rates of inflation and Peru's own rate of inflation. The weighting used is the share of those countries in Peru's total exports. For a more detailed explanation of the methodology used, see the Statistical Appendix.

decreased by 5% and 6% respectively in 1979 and 1980 (see table 11 and figure 2). The increased overvaluation was especially significant in 1981 with respect to the European currencies (owing to their loss of value with respect to the dollar) and was rather less with respect to the Latin American currencies. The dollar and the Japanese yen came somewhere in between.³

It should be noted, finally, that the devaluation process was not uniform throughout the year. It was most rapid between January and March when the rate of exchange rose by an average of 5.2% per month, slower between April and July (a monthly average of 1.9%), and higher again between August and December (a monthly average of 3.5%).

(a) *Trade in goods*

(i) *Exports.* The value of exports of goods in 1981 was a little over US\$ 3.2 billion, or 18% less than in 1980. It had grown steadily since 1972, with the exception of 1975. In general, all the important traditional export products (except zinc) and the non-traditional products as a whole experienced drops in their export value (see table 12).

The decrease in the value of traditional exports was due both to considerable decreases in the volume exported and to significant drops in world prices as a result of the world recession, the prevailing high international interest rates and certain internal factors. On the basis of the volume exported in 1981, the fall in the prices of silver, copper, lead and gold alone meant a smaller inflow of foreign exchange of US\$ 585 million.

The traditional products in which the drop in the export value was primarily due to the decrease in volume were fish meal, iron ore and petroleum (see table 13). In the case of fish meal, certain factors such as the smaller catch due to the rationalization of the use of fisheries resources, the greater importance attached to fishing for direct domestic human consumption and some

Table 9

PERU: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT^a

(Percentage of economically active population)

	1975 ^b	1976 ^c	1977 ^d	1978 ^e	1979 ^f	1980 ^g	1981 ^h
Total unemployment	7.5	6.9	8.4	8.0	6.5	7.1	6.8
Under-employment	17.6	24.4	24.3	38.8	33.0	26.0	26.8
By income	18.4	15.5	16.1	30.0	29.6	24.2	21.3
Slight	5.9	6.1	6.8	12.7	12.7	10.6	12.5
Medium	3.6	4.4	4.5	8.3	8.1	6.5	5.5
Acute	3.9	5.0	4.8	9.0	8.8	7.1	3.3
Less than 35 hours	4.0	7.6	7.7	8.3	3.1	1.4	3.1
Income and/or hours	0.2	1.3	0.5	0.5	0.3	0.4	2.4
Adequately employed	74.9	66.1	64.5	53.2	60.5	66.9	66.4
Undetermined level of employment	-	2.6	2.8	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Labour and National Institute of Statistics. Finance and Commerce.

^aData for Metropolitan Lima.

^bAverage April-September.

^cAverage March-November.

^dAverage March-June.

^eAverage July-August.

^fSeptember.

^gApril.

^hJune.

³In this respect, see the tables for Peru in the Statistical Appendix.

Table 10

PERU: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
Growth rates						
Exports of goods FOB						
Value	5.4	26.9	12.5	79.1	12.2	-17.5
Volume	-1.2	22.8	15.0	19.3	-13.7	-10.1
Unit value	6.6	3.4	-2.2	50.1	30.1	-8.2
Imports of goods FOB						
Value	-12.1	3.1	-26.1	30.7	46.4	25.7
Volume	-13.7	-3.2	-31.7	11.4	29.1	22.6
Unit value	1.8	6.5	8.2	17.3	13.4	2.5
Terms of trade FOB/CIF	4.5	-2.9	-9.4	28.3	15.1	-10.9
Indexes (1970 = 100)						
Terms of trade FOB/CIF	104.2	101.2	91.6	117.6	135.3	120.6
Purchasing power of exports of goods	75.0	88.9	93.3	144.4	143.4	114.2
Purchasing power of exports of goods and services	81.2	92.7	97.4	142.8	144.2	119.2

Source: ECLA, on the basis of official data.

^a Preliminary figures.

Table 11

PERU: EVOLUTION OF NOMINAL AND EFFECTIVE REAL EXCHANGE RATE

	Exchange rate (soles per dollar)	Indexes of effective real exchange rate ^a	
		For exports	For imports
1970	38.70	72.7	73.9
1971	38.70	71.2	71.9
1972	38.70	73.9	74.2
1973	38.70	79.2	78.9
1974	38.70	82.7	81.5
1975	40.80	76.6	76.1
1976	57.43	80.7	81.5
1977	83.81	90.4	90.3
1978	156.34	113.1	112.8
1979	224.55	106.9	107.3
1980	288.65	100.0	100.0
1981	426.59	86.4	87.0
1980:			
First quarter	(257.29)		
Second quarter	(275.66)		
Third quarter	(295.78)		
Fourth quarter	(325.89)		
1981:			
First quarter	(365.77)		
Second quarter	(411.74)		
Third quarter	(440.95)		
Fourth quarter	(487.88)		

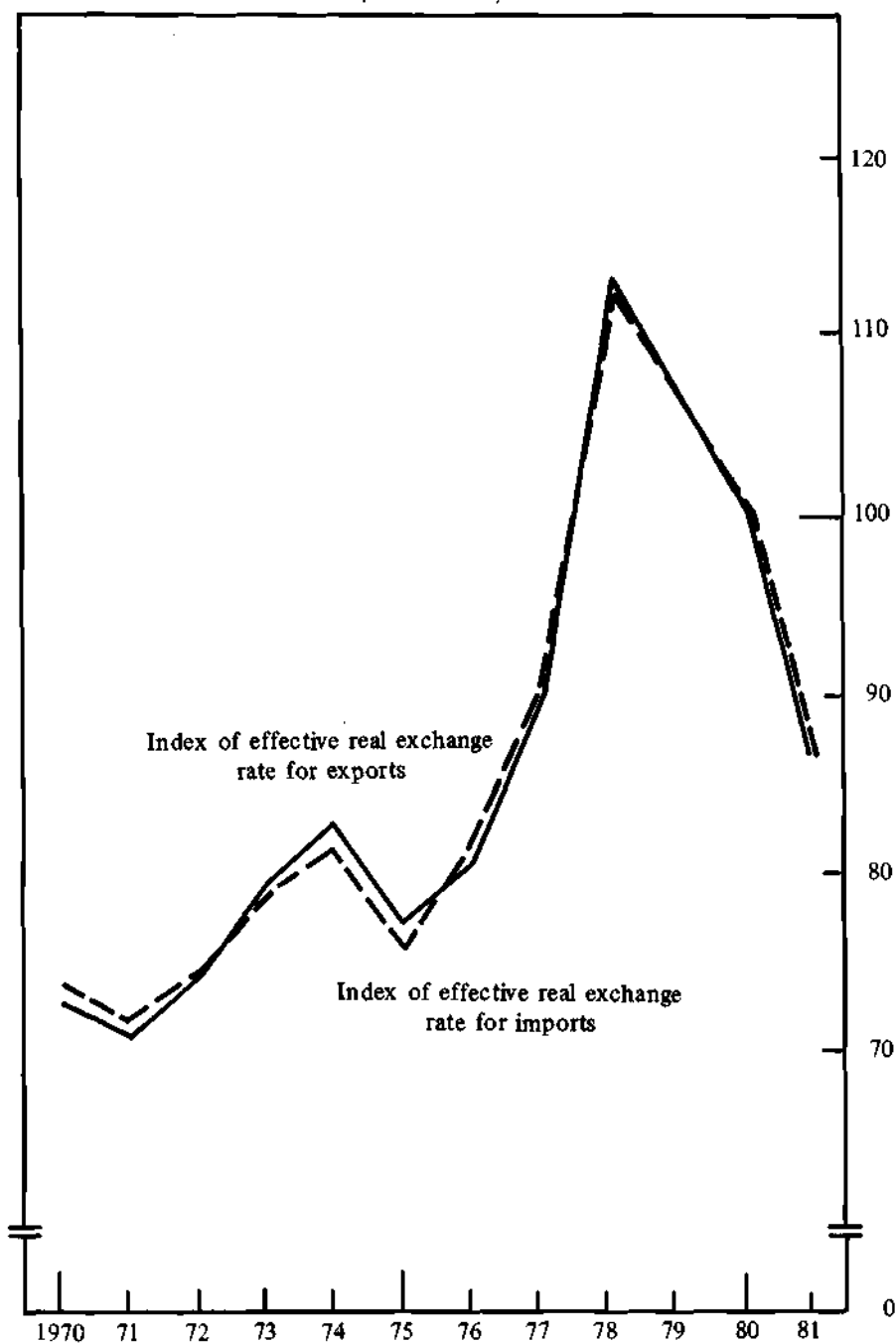
Source: ECLA, on the basis of data supplied by the Banco Central de Reserva del Perú, and International Monetary Fund, International Financial Statistics.

^a 1980 = 100.

Figure 2

PERU: EVOLUTION OF INDEXES OF EFFECTIVE REAL EXCHANGE
RATES FOR EXPORTS AND IMPORTS^a

(1980 = 100)



Source: Statistical Appendix.

marketing problems caused a decrease of 31% in the volume exported (following a fall of nearly 37% in 1980). Because of the 7% rise in the price of fish meal, the value of exports declined less than the volume (27%). As a result of this drop the share of fish meal in total exports continued to decline, sinking to only 4% in 1981, whereas in 1970, when fish meal was the country's main export product, its share amounted to 29%. This was essentially due to the decrease in the volume exported, since in 1981 this was only 15% of the 1970 volume.

In 1981 the volume of petroleum and petroleum products exported fell for the second year in succession, this time twice as fast (-11%) as the year before. Among the most important reasons for this decline were the decrease in production because of technical difficulties, problems in the transport of crude through the eastern area of the country (both by pipeline and by river transport), and the rise in domestic demand. Moreover, after having increased steadily since 1976 the price of petroleum dropped slightly (-2%) in 1981. The total result was a 13% decline in the export value to just under US\$ 700 million. Even so, however, the export value in 1981 was three times that of 1977 and the share of petroleum and petroleum products in total exports rose from 3% in the latter year to 22% in 1981. This constitutes a sharp change in the structure of Peru's exports, comparable only with the decrease in the relative importance of fisheries products.

In the case of iron ore, the export value changed very little (2%), since the drop of 8% in the volume was compensated for by a rise in the sales price of over 7% for the second consecutive year.

Cotton, coffee, copper and lead were the traditional products whose fall in export value was mainly due to the decrease in price (see table 13). In the case of copper, as in that of lead, this drop in price coincided with an equally significant decrease in the volume exported. Thus, owing to the lower grade of the ore mined and to serious labour disputes during the year, the volume of copper exported dropped by 7%, and this, together with the fall of 24% in its price, was responsible for the fact that income from copper exports went down by one-third in 1981 after rising steadily in the five preceding years.

The commodity whose price fell most sharply was lead (-44%). Added to the 10% decrease in the volume exported, this caused the severe drop of 50% in export value, which sank to less than US\$ 200 million. The prices of cotton and coffee, for their part, fell by 9% and 27% respectively.

In the case of exports of refined silver, the value remained unchanged between 1980 and 1981 as a result of highly significant changes in price and volume which cancelled each other out. On the one hand, the export volume increased by nearly 80%, although this was not due to a rise in domestic production (which went up by only 5%) but rather to the fact that the Banco Central de Reserva ceased to purchase silver. On the other hand, the price fell by more than 43% after four years of significant increase (80% in 1979 and 108% in 1980). Since the value of exports of refined silver was maintained, they represented 10% of total exports in 1981, whereas in 1973 they accounted for only 3%.

Zinc was the only traditional commodity whose export value rose in 1981 (29%). This rise, which occurred for the third consecutive year, was the result of increases in both price and volume exported.

Finally, exports of sugar dwindled to nothing in 1981; they had amounted to as much as US\$ 270 million in 1975, but as from 1976 they declined steadily, mainly owing to production problems of a technical and administrative nature which were aggravated at the end of the period by the drought.

Exports of non-traditional commodities fell to about US\$ 700 million in 1981, i.e., 17% less than the value registered in 1980 and just a little more than the 1979 value.⁴ In view of the fact that the export value of traditional commodities decreased by a very similar amount (18%), however, the share of non-traditional exports in the total exported was much the same in 1981 as the year before (about 21%). Their share was only 3% in 1970 and has risen almost continuously since then.

⁴It should be noted that the decrease in the export value of non-traditional commodities in 1981 is to some extent overestimated for various reasons such as the existence of fictitious exports, the erroneous classification of some items as non-traditional, and over-invoicing in some cases in 1980.

The decrease in non-traditional exports was due, first, to the fact that the price of goods was affected both by the increased value of the dollar on the international financial markets (which made Peru's exports less competitive) and by a certain delay in adjusting the exchange rate for the sol. Furthermore, in 1981 some changes were introduced in the system of export tax refund certificates (CERTEX) which had negative effects on non-traditional exports. Thus, CERTEX were completely eliminated in the case of some commodities (lead alloy, copper manufactures, gold and silver jewelry and trinkets, etc.) and were reduced in the case of others (canned fish, explosives). Moreover, the improved management of CERTEX was reflected in a stricter control of fictitious or over-invoiced exports.

The recession affecting the main export markets (the United States and the European Economic Community) also adversely affected non-traditional exports, resulting in decreased demand, protectionist measures and lower prices. The high interest rates on the national and international financial markets were another negative factor which drove up costs.

Finally, some factors had a specially negative effect on specific products. Thus, the conflict with Ecuador particularly affected exports of cement; the decrease in the catch of fish brought down external sales of frozen fish; the internal reactivation of construction had some influence on the drop in exports of construction materials, etc.

(ii) *Imports.* The value of imports of goods in 1981 totalled nearly US\$ 3.9 billion, i.e., 26% more than in 1980. Since this increase followed the also very considerable increments registered in the previous two years, the value of imports was 140% higher in 1981 than in 1978 (see table 14).

The main reasons for this growth were the delay in adjusting the exchange rate and the increased value of the dollar (which tended to make imports cheaper), the reactivation of domestic demand, and the continuation of the process of opening up trade.

Imports of consumer goods rose for the third consecutive year at a very high rate (60%), although it was considerably lower than that registered in 1980 (164%). As a result, their value

Table 12

PERU: EXPORTS OF GOODS, FOB

	Millions of dollars					Percentage breakdown		Growth rates		
	1971	1978	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total	889	1 941	3 491	3 898	3 218	100.0	100.0	79.9	11.7	-17.5
Traditional exports	852	1 597	2 817	3 067	2 525	95.8	78.5	76.4	8.9	-17.7
Fish meal	267	192	256	192	141	30.0	4.4	33.5	-25.1	-26.5
Fish oil	53	1	23	-	-	6.0	-	1 954.5	-100.0	-
Cotton	45	38	49	72	64	5.1	2.0	29.4	45.2	-10.6
Sugar	69	52	34	13	-	7.8	-	-33.7	-61.8	-100.0
Coffee	36	168	245	141	106	4.0	3.3	45.5	-42.3	-25.0
Copper ^b	180	412	674	752	529	20.2	16.4	63.6	11.5	-29.6
Iron ore	61	74	85	95	93	6.9	2.9	14.9	11.8	-1.9
Refined silver	22	118	234	312	312	2.5	9.7	97.7	33.4	-0.1
Lead ^b	49	175	294	383	192	5.5	6.0	67.9	30.5	-49.9
Zinc	48	133	171	210	272	5.4	8.5	28.7	22.9	29.3
Petroleum and petroleum products	6	180	646	792	692	0.7	21.5	259.1	22.6	-12.6
Others ^c	17	55	107	105	124	1.9	3.9	95.8	-1.6	18.1
Non-traditional exports	37	344	674	832	693	4.2	21.5	96.1	23.4	-16.7

Source: Banco Central de Reserva del Perú.

^aPreliminary figures.

^bIncluding silver content.

^cInclude mainly gold and minor metals.

Table 13

PERU: VALUE, VOLUME AND PRICES OF
MAIN EXPORT PRODUCTS^a

	1975	1976	1977	1978	1979	1980	1981 ^b
Fish meal							
Value	155.8	177.5	179.0	191.8	256.1	191.8	141.0
Volume	746.0	625.0	430.0	483.0	657.0	416.0	285.0
Price	208.8	284.0	416.3	397.1	389.7	460.6	494.7
Fish oil							
Value	38.6	0.3	0.9	1.1	22.6	...	...
Volume	141.0	5.0	4.0	5.0	56.0	...	...
Price	273.1	64.2	197.7	200.0	403.2	...	...
Cotton							
Value	53.0	70.9	48.0	38.1	49.3	71.6	64.0
Volume ^c	737.0	776.0	462.0	394.0	434.0	701.0	685.0
Price ^d	71.9	91.4	104.0	96.5	113.7	102.1	92.8
Sugar							
Value	269.1	91.2	74.2	51.7	34.3	13.1	...
Volume	421.8	296.1	389.5	290.7	180.8	52.8	...
Price ^d	29.3	14.2	8.8	8.2	8.7	11.4	...
Coffee							
Value	53.2	101.0	196.3	168.2	244.8	144.1	106.0
Volume	43.2	42.8	43.0	53.5	69.5	44.2	46.0
Price ^d	56.6	108.0	210.0	144.6	162.1	147.0	107.4
Copper							
Value	167.8	234.3	398.4	411.9	673.9	751.6	529.0
Volume	151.9	181.9	331.3	343.9	373.3	350.0	325.0
Price ^e	50.1	58.4	54.5	54.3	81.9	97.4	73.8
Iron ore							
Value	51.9	63.5	90.5	73.8	84.8	94.8	93.0
Volume ^f	4 975.0	4 470.0	6 122.0	4 778.0	5 749.0	5 730.0	5 269.0
Price ^g	10.4	14.2	14.8	15.5	14.8	16.5	17.7
Refined silver							
Value	82.2	89.6	116.0	118.4	234.1	312.2	312.0
Volume ^h	18 392.0	20 818.0	25 110.0	22 534.0	24 807.0	15 905.0	28 075.0
Price ⁱ	446.9	430.4	462.0	525.4	943.7	1 962.9	1 111.3
Lead							
Value	93.9	111.8	132.1	174.9	293.7	383.4	192.0
Volume	128.5	180.3	172.0	177.1	164.4	154.1	139.0
Price ^e	33.1	28.1	34.8	44.8	81.0	112.8	62.7
Zinc							
Value	151.5	191.5	163.5	133.0	171.2	210.4	272.0
Volume	405.9	432.3	433.9	436.7	417.9	437.6	499.0
Price ^e	16.9	20.1	17.1	13.8	18.6	21.8	24.7
Petroleum and petroleum products							
Value	43.6	53.3	52.2	179.8	645.7	791.5	692.0
Volume ^j	4 069.0	4 742.0	4 104.0	13 775.0	23 570.0	22 427.0	19 915.0
Price ^k	10.7	11.2	12.7	13.1	27.4	35.3	34.7

Source: Banco Central de Reserva del Perú.

^aValue in millions of dollars, volume in thousands of tons and prices in dollars per ton, unless otherwise indicated.^bPreliminary figures.^cThousands of quintals.^dDollars per quintal.^eUS cents per pound.^fThousands of net legal tons.^gDollars per net legal ton.^hThousands of troy ounces.ⁱUS cents per troy ounce.^jThousands of barrels.^kDollars per barrel.

came close to US\$ 620 million in 1981 and was six times the figure registered only three years previously. At the same time, their share in total imports rose from 6% in 1978 to 16% in 1981.

The exceptionally high rate of increase in imports of consumer goods in 1981 was the result of growth rates of 53% in purchases of foodstuffs (rice, sugar, dairy products) and 64% in purchases of other consumer goods.

Both the public and private sectors increased their imports of consumer goods by very significant percentages: the former by 46% and the latter by 117%. In the case of the public sector, this was mainly due to imports of foodstuffs (for example, imports of sugar rose by over 200%). In the case of the private sector, the increase was mainly the result of customs tariff liberalization. There were particularly large increases in imports of textiles, luxury articles and automobiles. Imported vehicles, for example, represented 55% of all the vehicles sold in the country in 1981, compared with only 29% in 1980.

Imports of intermediate goods increased at the slowest pace in 1981, although it was by no means low (18%) and they amounted to nearly US\$ 1.4 billion. Their share in total imports continued to decrease, however, sinking to 36% in 1981 (a similar proportion to that registered in 1970). Thus, imports of intermediate goods dropped back to second place, following capital goods, after having been the most important import item between 1970 and 1980. In 1981, imported foodstuffs used as inputs (wheat, maize, sorghum, oil, dairy products) grew by a little less than 9% and other imported inputs by 21%. As in the case of imports of consumer goods, greater dynamism was shown by the private sector, which increased its imports of intermediate goods by 24%, while the public sector did so by only 2%.

Imports of capital goods surpassed US\$ 1.5 billion in 1981 owing to their growth of over 37%: a fairly high rate, although somewhat lower than the rates of 51% and 63% registered in 1979 and 1980, respectively. As a result of this notable and sustained expansion, the value of imports of capital goods more than trebled in the course of the last three years, while their share in total imports rose from 29% in 1978 to 40% in 1981. The private sector was responsible for 65% of total imports of capital goods in 1981, a growth rate of 43%. Those of the public sector grew by 28%.

The significant growth of imports of intermediate and capital goods by the private sector was mainly due to the continuation in 1981 of the process of recovery of domestic economic activity and the persistent policy of opening up trade, which led to the adoption of measures such as the reduction of tariffs on inputs and capital goods for industry (March), agriculture (April) and transport activities (September). In the case of the public sector, its imports of capital goods mainly represented the imported component of investment projects.

Table 14

PERU: IMPORTS OF GOODS, FOB

	Millions of dollars					Percentage breakdown		Growth rates		
	1971	1978	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total	730	1 601	1 951	3 062	3 850	100.0	100.0	21.9	56.9	25.7
Consumer goods	81	104	146	386	618	11.1	16.1	41.1	163.7	60.3
Intermediate goods	353	734	900	1 163	1 374	48.4	35.7	22.5	29.3	18.1
Capital goods	189	458	693	1 126	1 547	25.9	40.2	51.2	62.5	37.4
Adjustments and miscellaneous items ^b	107	305	213	388	311	14.7	8.1	-30.1	82.0	-19.7

Source: Banco Central de Reserva del Perú.

^aPreliminary figures.

^bInclude adjustments, non-monetary gold, and other imports not elsewhere classified.

(iii) *The terms of trade and the purchasing power of exports.* Although in 1979 and 1980 the unit value of exports of goods increased at very high rates (50% and 30%, respectively), in 1981 it decreased by a little over 8%. This reflected the drop in the prices of nearly all the traditional export commodities. The unit value of imports of goods, for its part, rose by 3%, thus pursuing the rising trend observable throughout the 1970s and in 1980. Accordingly, after the considerable increases registered in 1979 and 1980 the terms of trade fell by 11% in 1981 to a level similar to that of 1979.

Added to the drop in the unit value of exports of goods in 1981, there was a decrease in their volume (-10%) for the second consecutive year. Thus the purchasing power of exports declined by over 20% in 1981, after having fallen slightly in 1980 but doubled between 1976 and 1979.

(b) *The services trade and factor payments*

The outflow of foreign exchange for imports of non-financial services grew by nearly 40% in 1981 to over US\$ 1.1 billion. This amount was more than double that registered only two years before. Income under the heading of exports of these services rose by only 2% after increasing by one-quarter in 1980 (see table 15). In consequence, the trade deficit in non-financial services increased substantially to slightly over US\$ 380 million in 1981: five times the deficit recorded in 1980, which in its turn had contrasted with the small surplus achieved in 1979.

The two main items of non-financial services (transport and insurance, and travel) deteriorated in 1981. The deficit under the heading of transport and insurance increased by 75% in 1981, amounting to almost six times that registered in 1979 (an increment which was partly associated with the exceptional expansion of imports of goods). In turn, the surplus in respect of travel decreased in 1981, after a period of five years in which it had increased steadily. This surplus, which had been only US\$ 7 million in 1975 but in 1981 amounted to US\$ 186 million, thus dropped to US\$ 155 million in 1981. That year inflows practically remained unchanged, after a fall of 3% in the entry of foreign visitors into Peru. In contrast, outflows under the head of travel increased by one-third, owing partly to the fact that travel abroad by Peruvian citizens rose by 15%.

Net external payments for financial services experienced only a small change in 1981, with the deficit growing by 3% after a fall of nearly 12% in 1980. Payment of profits showed a considerable increase (24%) to over US\$ 360 million. Net interest payments, for their part, decreased for the second year in succession (-8%) to a little less than US\$ 500 million. This was achieved despite the rise in international interest rates in 1981, which meant additional financial pressure on the country's balance of payments in the amount of US\$ 135 million.

(c) *The current account position and its financing*

After obtaining a surplus on current account of nearly US\$ 500 million in 1979 and a small deficit of slightly over US\$ 70 million in 1980, the current account closed in 1981 with an unprecedented negative balance of nearly US\$ 1.9 billion.

Most of this deficit was due to the substantial deficit generated by the balance of financial and non-financial services (over US\$ 1.2 billion). The change from a small deficit in 1980 to an exceptionally large one in 1981, however, was mainly attributable to the reversal in the balance of trade in goods, which changed from a surplus of close on US\$ 840 million in 1980 to a deficit of over US\$ 630 million in 1981. Approximately 46% of the current account deficit was financed with net movements of long-term capital, the net inflow of which totalled about US\$ 870 million in 1981, or nearly 90% more than in the previous year. This result was decisively influenced by direct investment, which, after decreasing by a little over 60% in 1980, multiplied ten-fold in 1981 to US\$ 280 million: the highest figure since 1975. As a result of the incentives granted to the petroleum sector, this registered the most dynamic growth in investment, which rose by 38% in 1981 with respect to the amount invested in the previous year, totalling nearly US\$ 420 million and constituting 82% of total investment. Furthermore, amortization payments in this sector were reduced by 54%. Thus, net direct petroleum investment rose by more than 300% between 1980 and 1981.

Table 15

PERU: BALANCE OF PAYMENTS
(Millions of US dollars)

	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	1 744	2 130	2 398	4 069	4 642	3 975
Goods FOB	1 360	1 726	1 941	3 475	3 898	3 218
Services ^b	384	404	457	594	744	757
Transport and insurance	157	175	179	255	291	292
Travel	99	112	141	189	293	295
Imports of goods and services	2 626	2 688	2 068	2 627	3 879	4 988
Goods FOB	2 099	2 164	1 600	2 091	3 062	3 850
Services ^b	526	524	468	536	818	1 138
Transport and insurance	308	325	263	300	441	555
Travel	57	36	33	44	107	140
Merchandise balance	-740	-438	341	1 384	837	-632
Trade balance	-882	-559	330	1 441	763	-1 013
Profits and interest	-370	-422	-579	-945	-835	-860
Profits	-44	-54	-84	-391	-293	-362
Interest received	10	13	14	57	200	295
Interest paid	-337	-381	-509	-611	-742	-793
Unrequited private transfer payments	3	5	4	-	-	-
Balance on current account	-1 248	-976	-245	496	-72	-1 873
Unrequited official transfer payments	55	53	54	122	134	167
Long-term capital	807	955	265	754	460	866
Direct investment	170	55	26	70	27	280
Portfolio investment	-	-	-	-	-	-
Other long-term capital	637	901	238	684	434	586
Official sector ^c	644	883	225	716	369	410
Loans received	1 019	1 285	1 102	1 835	-	-
Amortization payments	-338	-395	-868	-1 091	-	-
Commercial banks ^c	-	-	-	-	-	-
Loans received	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-
Other sectors ^c	-7	18	14	-32	65	176
Loans received	106	118	96	89	-	-
Amortization payments	-113	-100	-83	-119	-	-
Basic balance	-386	32	74	1 371	523	-840
Short-term capital	400	150	-101	-266	-	-
Official sector	337	109	-37	-300	-	-
Commercial banks	64	39	-66	-53	-	-
Other sector	-	2	2	86	-	-
Errors and omissions (net)	-327	-113	53	-61	200	256
Balance on capital account	936	1 042	269	553	794	1 289
Global balance ^d	-312	66	24	1 049	722	-584
Total variation in reserves ^d (minus sign indicates an increase)	314	-60	-6	-1 066	-750	584
Monetary gold	-	-	-	-64	-11	-
Special Drawing Rights	40	-	-3	-100	94	1
IMF reserve position	36	-	-	-	-	-
Foreign exchange assets	61	-68	-30	-1 031	-553	769
Other assets	-8	-13	-101	-29	-263	-100
Use made of IMF credit	185	21	128	158	-17	-87

Source: 1976-1979: International Monetary Fund, *Balance of Payments Yearbook*; 1980-1981: ECLA, on the basis of official data.

^aPreliminary figures.

^bServices also include other official and private transactions, but not profits and interest.

^cIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^dThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Net loans to the private sector were also highly dynamic in 1981, reaching a total of over US\$ 170 million, or almost three times the previous year's figure. Finally, official loans also increased, although their growth rate of 11% was considerably lower than those of the other two components of long-term capital.

The rest of the deficit on current account was financed with movements from the net international reserves, which dropped from over US\$ 1.2 billion at the end of 1980 to a little over US\$ 700 million in December 1981. This represented a fall of 46% (US\$ 584 million), following the increases of over US\$ 700 million in 1980 and more than US\$ 1 billion in 1979.

Two-thirds of the decrease in international reserves, however, was due to an advance payment of US\$ 377 million on the external debt in April. This payment was made to replace onerous loans by soft loans and to improve the country's external financial image. During the rest of the year, the net international reserves fluctuated around the value attained in April.

(d) *External indebtedness*

The evolution of Peru's external debt in the last two years has been very different from that of Latin America's indebtedness in general. Thus, while the latter grew at an average annual rate of 21% between 1979 and 1981, Peru's external debt rose at an average annual rate of barely 3%, so that after having constituted 9% of Latin America's total external debt in 1975, it represented only 4% of it in 1981.

At the end of 1981 the value of Peru's total external debt amounted to nearly US\$ 9.9 billion (5% higher than the figure registered at the end of 1980). The increases in the preceding years were even more moderate: 1% in 1979 and 3% in 1980 (see table 16). In contrast, the average annual growth rate during the period between the end of 1973 and the end of 1978 was more than 15%. This slackening in the rate of expansion caused a drop in the coefficient of the total external debt/gross domestic product, which, after rising from 0.49 in 1973 to 0.85 in 1978, decreased systematically in the following years until it returned to the value of 0.49 in 1981.

As in 1980, the long-term external debt represented 86% of the total debt in 1981. It grew at a moderate rate (4%) although this was double the 1980 figure. The corresponding average rate for the period 1974-1978 had been 22%. The public external debt was the most important component of the long-term external debt (76% of the total in 1981). Except in 1977, the growth rate of the public external debt steadily decreased from 46% in 1974 to 5% in 1980. In 1981, however, it rose to 7% and the public external debt totalled more than US\$ 6.4 billion in that year. It should be noted that the relatively moderate growth rate was due in part to heavy amortization payments. These increased by 29% in 1981 and included the aforementioned advance payment of US\$ 377 million made in April.

The coefficient of the public external debt with respect to the gross domestic product in 1981 was equal to 0.32, which was less than in 1980 (0.35) but considerably more than in 1973 (when it was only 0.16). In 1981, the public external debt constituted 65% of the total external debt, compared with only 33% in 1973.

In contrast with the foregoing, the long-term external debt of the private sector increased by 13% in 1981 to over US\$ 1.5 billion, thus more than doubling its 1980 growth rate. This rate is exceptionally high compared with the evolution of previous years, since it is similar to the total increase in the long-term external debt of the private sector over the whole period 1974-1980 (14%, or an annual average of 2%). At the same time, this rate was for the first time in many years higher than the rate for the external public debt, except in 1980 when the two were practically equal. This considerable expansion, which was due to the private sector's recovery in certain areas, was mainly centered in the mining and manufacturing sectors and was used primarily to finance imports.

The slow expansion of the private sector's long-term external debt in the years prior to 1981 was responsible for the fact that although it constituted 27% of the total external debt in 1973, the proportion was only 16% in 1981. This situation, together with the aforementioned rapid growth of the external public debt, reflect on the one hand the greater importance assigned to the State's

economic activity during the 1970s, and on the other hand the various political and economic factors which restrained the private sector's momentum in that period. In 1981 and to some extent also during 1980 the situation tended to change and the private sector had more favourable conditions for its expansion.

The short-term external debt, both public and private, increased by 11% in 1981, after decreasing in 1977, 1978 and 1979 and rising by 6% in 1980. As a result, at the end of 1981 it amounted to US\$ 1.4 billion: i.e., lower than the 1973 figure. The short-term debt which represented 40% of the total debt in 1973, thus accounted for only 14% of it in 1981. Since short-term loans are associated primarily with external trade operations, of both private and public enterprises, their growth in 1981 to a certain extent reflected the greater dynamism of domestic economic activity.

In 1981 there was also a notable change as regards the public sector's external borrowing, which increased by 23% to nearly US\$ 1.9 billion, following a decrease of 12% in 1980. Between that year and 1981 there was also a significant change in the composition of the sources of financing. Loans contracted with international banks rose by 135%, thus representing 47% of the total (compared with 25% of the total in 1980). Those contracted with international agencies grew by 109%, going up from 15% of the total in 1980 to 26% in 1981. Suppliers provided 16% of the loans obtained in 1981, against 35% in 1980. Finally, there was a considerable decrease in the participation of official agencies and governments, which granted 20% of the loans obtained in 1980 but only 4% in 1981. The socialist countries contributed the balance (6% in 1980 and 7% in 1981).

Table 16

PERU: INDICATORS OF EXTERNAL INDEBTEDNESS

	1973	1977	1978	1979	1980	1981 ^a	Growth rates			
							1978	1979	1980	1981 ^a
Millions of dollars										
Total external debt	4 463	8 397	9 055	9 127	9 387	9 862	7.8	0.8	2.8	5.1
Long-term external debt	2 692	6 263	7 225	7 941	8 125	8 457	15.4	9.9	2.3	4.1
Public sector	1 491	4 311	5 134	5 764	6 043	6 454	19.1	12.3	4.8	6.8
Banco Central de Reserva del Perú	-	626	751	869	710	455	20.0	15.7	-18.3	-35.9
Private sector	1 201	1 326	1 340	1 308	1 373	1 548	1.1	-2.4	5.0	12.7
Short-term public and private external debt	1 771	2 134	1 830	1 186	1 262	1 405	-14.2	-35.2	6.4	11.3
Public external debt as a percentage of GPD	16.3	34.4	47.9	42.2	35.1	32.1				
Total external debt as a percentage of GDP	48.7	67.0	84.5	66.8	54.5	49.0				
Servicing of external public debt as a percentage of exports FOB	38.9	35.8	38.7	23.3	33.9	53.2				
Percentages										
Credit contracted by financing sources ^b	100.0	100.0	100.0	100.0	100.0	100.0				
Official agencies and governments	14.7	28.5	56.9	16.1	19.7	4.3				
International agencies	6.6	11.5	13.7	10.1	15.1	25.6				
Socialist countries	2.7	15.8	1.0	16.7	5.6	6.8				
Suppliers	29.3	39.3	16.2	24.3	34.9	16.0				
Banks	46.7	5.0	12.2	33.0	24.6	47.1				

Source: Banco Central de Reserva del Perú.

^aPreliminary figures.

^bIncludes long-term external public debt of the central government and public enterprises.

The increased share of loans obtained from international agencies should lead to a future improvement in the terms of the total debt, as also should the increase in borrowing from international banks, since it includes loans for US\$ 377 million on more favourable conditions than loans for the same value which were paid off by means of the advance payment made in April. The decreased participation of official agencies and governments was due to the fact that only in May 1981 did the new Government of Peru present to the Advisory Group in Paris the programme of public investments for the period 1981-1985 which require external financing.

The sectors receiving the largest proportions of the loans obtained in 1981 were defence (18% of the total), transport (17%), energy (15%) and agriculture and mining (14% each).

Disbursements of external loans to the public sector in 1981 expanded by 33% to US\$ 1.6 billion: i.e., more than 8 times the level of disbursements in 1970. In line with the Government's interest in developing infrastructure works throughout the country, 66% of the total disbursements were destined for investment projects in 1981, compared with 45% the year before. The energy and mining sector received 28% of the funds allocated to investment projects; agriculture, 25% (mainly a contribution of US\$ 100 million to the Banco Agrario), and transport and communications, 18% (mainly for road construction). It should also be noted that 9% of the disbursements were assigned to food imports.

Servicing of the external public debt totalled a little over US\$ 1.7 billion, or 20% more than in 1980. Amortization payments amounted to nearly US\$ 1.2 billion (a 27% increase) and interest payments to US\$ 520 million (an increase of only 6%). The coefficient of external public debt servicing with respect to exports was 0.53 in 1981, against 0.37 in 1980 and 0.26 in 1979. It should be noted, however, that the service payments made in 1981 include the advance payment of US\$ 377 million in April; if this were left out, the coefficient would be 0.41. The average interest rate paid by Peru in 1981 was 8%, resulting from the following rates: socialist countries: 4%; international agencies: 6%; official agencies and governments: 6%; suppliers: 9%; and private banks: 14%.

4. Prices and wages

(a) *Prices*

After moderate decreases in 1979 and 1980, the rate of inflation spurted again in 1981, when the December-December rise in the consumer price index was 73%: almost as much as the maximum recorded in 1978 (74%). Moreover, the variation between annual averages of the aforementioned index was 75%, the highest figure for the entire period for which statistics are available (see table 17).

Inflation was uneven during 1981. In the first quarter the variation in consumer prices was nearly 25%, equivalent to an annual rate of 140%. This exceptional increase was due to the so-called "unfreezing" of prices, that is to say, the adjustment of the prices of most of the controlled products. Over the period April-December 1981, however, the total variation in consumer prices was nearly 39%, equivalent to 55% annually.

The items which experienced the highest rates of inflation in 1981 were furniture and household goods, health care and transport and communications, all of which showed December-December variations equal to 80% or more. Clothing and footwear were the items least affected by inflation (50%), compared with 68% in the case of foodstuffs, beverages and tobacco.

The variation in the wholesale price index from December to December was 66% in 1981. This rate, although much lower than the 96% registered in 1978, was higher than that of the two intervening years. This acceleration was mainly due to the variation in wholesale prices of domestic manufactured products, which doubled in 1981 to a rate of 82%. Wholesale prices of domestic agricultural commodities rose at a considerably lower rate than in 1980, whereas in the case of imported products the rise in wholesale prices in 1981 was 48% as against 42% the year before.

Apart from the aforementioned unfreezing of prices, a number of other factors contributed to the persistence of the inflationary process in 1981. On the one hand, the pressure of costs was considerable owing, *inter alia*, to the higher rate of devaluation, the increase in interest rates, and wage adjustments. Another factor was the substantial deficit, although a large part of it was financed by external and domestic borrowing. In the latter case, recourse was had to idle funds of the financial system.

Among the factors which partly curbed the inflationary process were the fall in real terms of the Central Bank's primary issue and the increase in financial saving as a proportion of the gross domestic product.

(b) *Wages*

The real value of wages and salaries received by manual and non-manual workers in Metropolitan Lima showed a slight decrease in 1981, following a considerable improvement in 1980 after several years of continuous decreases. This real value continued to average over 25% less in 1981 than the 1973 figure. During the period of intense inflation experienced by Peru, which was accentuated from 1976 onwards, wages and salaries have not increased fast enough to counteract the loss of their purchasing power (see table 18).

The situation of general government employees, however, was considerably worse. Although in 1979, unlike the private sector, general government wages and salaries showed positive growth, this became negative in both 1980 (-18%) and 1981 (-9%). Thus, at the end of 1981 the average basic remuneration paid by the general government was equal to only 38% of that paid in December 1973.

As far as the income of the rural population, which is composed mainly of low-income groups, is concerned, it may be assumed that there was a substantial real improvement owing to the notable performance of the agricultural sector and the traditionally slow growth of the economically active population engaged in agriculture.

In 1981 two important measures designed to maintain the real value of wages and salaries prevented them from deteriorating still more. Firstly, workers in the public and private sectors not subject to collective bargaining were granted quarterly increases in proportions similar to the expected variation in consumer prices. Secondly, it was decreed that collective agreements should contain wage adjustment clauses to replace the former cost-of-living adjustments decreed by the Government.

Table 17

PERU: EVOLUTION OF DOMESTIC PRICES

	1975	1976	1977	1978	1979	1980	1981 ^a
Variation from December to December							
Consumer price index	24.0	44.7	32.4	73.7	66.7	60.8	72.7
Food	31.2	44.5	33.0	77.7	75.1	38.1	68.2
Wholesale price index	...	...	43.3	95.7	60.9	53.0	66.1
Imported products	...	...	70.6	113.3	49.0	41.7	48.2
Domestic product	...	...	30.5	88.5	66.4	57.7	72.7
Agricultural products	...	...	27.3	67.4	79.7	89.4	58.4
Manufactures	...	...	39.1	100.0	60.4	41.5	82.2
Variation between annual averages							
Consumer price index	23.6	33.5	38.1	57.8	67.7	59.2	75.4
Food	32.8	32.5	40.3	59.7	74.2	58.8	76.4
Wholesale price index	23.8	38.5	46.5	76.0	70.4	53.1	68.1
Imported products	26.8	36.7	61.1	99.0	72.8	45.4	47.5
Domestic products	23.0	39.1	42.0	68.2	69.6	56.3	76.1
Agricultural products	26.3	35.6	40.6	44.3	75.7	78.7	78.4
Manufactures	21.1	41.4	43.1	82.2	66.8	45.3	74.6

Source: National Institute of Statistics.

^aPreliminary figures.

Table 18

PERU: EVOLUTION OF WAGES AND SALARIES^{a,b}

	1975	1976	1977	1978	1979	1980	1981 ^c
Nominal wages and salaries							
Salaries ^d	13 954	16 019	19 180	25 989	39 993	67 923	118 643
Wages ^e	237	322	376	536	869	1 502	2 585
General government ^f	118.9	141.3	167.2	225.4	319.5	419.6	673.2
Real wages and salaries (indexes 1973 = 100)							
Salaries	92.6	79.6	69.0	59.3	54.4	58.0	57.8
Wages	89.1	90.7	76.7	69.3	67.0	72.7	71.4
General government ^f	80.5	66.1	59.1	45.8	49.7	41.0	37.5
Growth rates							
Nominal wages and salaries							
Salaries		14.8	19.7	35.5	53.9	69.8	74.7
wages		35.9	16.8	42.6	62.1	72.8	72.1
General government		18.8	18.3	34.8	41.7	32.6	58.0
Real wages and salaries							
Salaries		-14.0	-13.3	-14.1	-8.3	6.7	-0.4
Wages		1.8	-15.5	-9.6	-3.3	8.6	-1.9
General government		-17.9	-10.6	-22.5	8.5	-17.5	-8.5

Source: National Institute of Statistics.

^aThe salaries (employees) and wages (workers) correspond to the average wages and salaries paid by the private sector in Metropolitan Lima. In the case of the government, only average basic wages and salaries are considered.

^bThe data for wages and salaries are annual averages; those for general government are at December of each year.

^cPreliminary figures.

^dSoles per month.

^eSoles per day.

^fIndex: December 1973 = 100.

5. Monetary and fiscal policy

(a) *Monetary policy*

In 1981 there was a small decrease in real terms in total liquidity (its nominal growth was 70%), after two years of real positive growth (see table 19). This was partly the result of the authorities' effort to put into effect a restrictive monetary policy which would not generate inflationary pressures. This policy, as will be seen later, was compatible with a significant expansion of credit to the private sector owing to the fall in the net international reserves, the result being that the nominal growth of liquidity was wholly based on domestic sources.

While the net international reserves decreased by 36% in nominal terms and the negative balance on other external operations increased by 76%, domestic credit grew by 114%.

For the third consecutive year the growth rate of credit to the private sector (100%, or 14% in real terms) was higher than that of credit to the public sector (nearly 90%, or 7% in real terms). Thus, while in 1978 credit to the private sector was nearly 10% less than that to the public sector, in 1981 it was more than double it. The result obtained in this respect in 1981 was in keeping with the policy announced by the authorities aimed at giving an effective stimulus to private activities through credit and refraining from financing the government by inflationary means (although this latter objective was achieved only in the first half of the year).

The rapid growth of credit to the private sector in 1981 was possible thanks to a number of measures adopted during the year which increased the quantity of available financial resources, such as reductions in the legal reserves in respect of deposits in national and foreign currency, the

elimination of compulsory deposits in national currency which were a requirement for all external financing, the establishment of certain credit lines managed by the Central Bank, and the abolition of the retention of part of the foreign exchange generated by exports.

As regards the use made of total liquidity, 1981 witnessed the continuation of the trend towards reducing the share of money in total liquidity and, as its logical counterpart, increasing the share of quasi-money. In real terms, the quantity of money decreased (owing to a nominal growth of less than 50% during the year), after having grown in the two previous years, while the amount of quasi-money expanded for the third consecutive year thanks to its nominal growth of over 80%. As a result, money represented 34% of total liquidity and quasi-money 66%. The proportions in 1977 were 52% and 48%, respectively.

Furthermore, some restraint was placed in 1981 on the so-called "dollarization" process which consisted of the rapid growth of foreign currency deposits and hence of their share in total quasi-money. In real terms, the volume of these deposits in 1980 was 27 times the amount recorded only three years previously and in that year they constituted 44% of total quasi-money, while in 1977 they had represented only 3%. In 1981, however, they fell by 19% in real terms, so that their share in quasi-money dropped to 34%.

Table 19

PERU: MONETARY BALANCE^a

	Balance at year end (billions of soles)				Growth rates			
	1978	1979	1980	1981 ^b	1978	1979	1980	1981 ^b
Total liquidity	353	696	1 341	2 280	55.6	97.1	92.7	70.0
Sources:								
Foreign assets (net)	-205	139	421	270	69.3	167.6	204.1	-35.9
Other external operations (net)	-81	-78	-115	-202	67.2	-3.2	47.2	76.5
Net domestic credit	639	635	1 034	2 212	61.2	-0.5	62.8	113.9
Public sector	331	291	468	877	72.5	-12.1	60.8	87.3
Central government	229	213	327	617	63.3	-7.2	53.7	88.7
Public enterprises	142	126	202	331	64.1	-11.5	60.0	64.3
Rest	-41	-48	-60	-71	15.1	17.5	26.9	17.7
Enterprises and individuals sector	301	474	931	1 858	37.8	57.5	96.1	99.7
Others ^c	6	-131	-365	-523	142.1	-2 239.3	179.5	43.5
Uses								
Money	171	305	524	775	43.9	78.5	71.9	47.8
Bills and coin in circulation	90	161	273	436	48.5	79.7	69.2	59.7
Demand deposits in national currency	81	144	251	339	39.1	77.2	74.9	34.8
Quasi-money	182	391	817	1 505	68.5	114.4	108.9	84.3
Time deposits in national currency	31	58	111	238	24.3	88.9	91.6	114.4
Saving deposits in national currency	40	86	177	430	39.1	117.0	106.4	142.9
Deposits in foreign currency	49	143	359	510	1 440.6	189.9	150.9	42.1
Others ^d	63	104	170	328	21.0	66.1	63.0	92.7

Source: Banco Central de Reserva del Perú.

^aData refer to national financial system. Exchange rate used (soles per dollar): 110 for 1977, 200 for 1978, 250 for 1979, 330 for 1980 and 390 for 1981.

^bPreliminary figures.

^cInclude net credit to FONAPS; inter-system operations; capital, reserves, provisions and results; other net assets and liabilities; adjustment for revaluation.

^dInclude mortgage savings certificates; other securities; other mortgage papers; foreign exchange certificates; securities and bonds issued by the non-bank financial system; capital contributions, and technical life reserves.

Time and savings deposits in national currency rose significantly in 1981, increasing their share in quasi-money to 44%, after a decline in the previous three years. Together, these two types of deposits grew by one-third in real terms in 1981.

The progressive "dollarization" of financial assets up to 1980 and its abrupt halt in 1981 were largely due to the evolution of the interest rates paid on national currency deposits. Up to 1980 these were negative in real terms, which, combined with the continuous process of devaluation, made deposits in foreign currency more attractive. Nominal interest rates on deposits in national currency almost doubled in 1981, however, so that the real interest rate became positive in some periods of the year. At the same time, the process of devaluation lagged behind inflation, and this, added to the foregoing, caused many deposits kept in foreign currency to be converted into national currency deposits.

(b) *Fiscal policy*

The results obtained by the Government's economic action in 1981 were very different from what had originally been budgeted for the year. Thus, while fiscal income was 9% less than that budgeted, current expenditure was 9% higher, so that savings on current account were 94% less than the projected amount. Moreover, capital expenditure (excluding amortization payments) was 48% higher than foreseen in the budget.

These differences were due on the one hand to the speed with which the budget had to be prepared in 1980 owing to the change of government, and on the other hand to the adoption of some assumptions which were not fulfilled in practice regarding, for example, the adjustments of controlled prices, cuts in investment programmes, etc.

Owing to the big decrease in current account savings and the increase in capital expenditure, the nominal fiscal deficit doubled in 1981, increasing by 23% in real terms. As a percentage of the gross domestic product it came to 9% in that year, compared with 7% in 1980.

The large fiscal deficit arose for the following reasons. In the first place, after increasing in real terms in 1978, 1979 and 1980, government income fell by 15% in 1981 (see table 20). The tax burden (revenue/gross domestic product), which had been 21% in 1980, dropped to 18% in 1981.

Taxes on imports were the only ones to show a real increase, which was due to their nominal growth of over 100% in 1981 (although this was less than the previous year's increase). A basic factor in this was the increased value of imports. Taxes on production and consumption were the second most dynamic items, since they expanded by two-thirds, which meant a small decrease in real terms. Revenue from income tax increased by only 2% in nominal terms to a little over 300 billion soles, thus decreasing by 42% in real terms. This was due above all to a decline in the income of mining companies owing to the low world prices and problems in the production process such as labour disputes. Finally, taxes on exports fell both in nominal terms (6%) and in real terms, as a result of the lower value of traditional exports and the progressive elimination of the 17.5% tax levied on mining exports.

Total expenditure, for its part, registered nominal growth of 66% (less than in 1980), so that for the second consecutive year expenditure grew more rapidly than income (see table 20), although this growth did not become positive in real terms. The proportion of the gross domestic product represented by total expenditure in 1981 was similar to that recorded in 1980 (27%).

Current expenditure rose by 69% during the year. As a proportion of total expenditure, this item remained close to the 1980 level (66%). The item which expanded most in 1981 was expenditure on wages and salaries, which grew by 88%, thus increasing its share in total expenditure from 17% in 1980 to 20% in 1981 (it may be noted that its share was 30% in 1975). In real terms, the growth rate of public expenditure on wages and salaries was positive for the second year in succession, but the real total value of this expenditure in 1981 was equivalent to only 85% of the 1975 figure.

Owing to the higher domestic and external interest rates, interest payments grew by 79% in nominal terms in 1981 (which meant a small real growth). Particularly notable was the growth of interest on the domestic debt (121%). The rest of government expenditure increased by 52%,

owing especially to a 78% rise in expenditure on goods and services. Finally, public food subsidies amounted to 57 billion soles (equivalent to 0.7% of the gross domestic product), of which ECASA, the public rice-marketing enterprise, received 50 billion and ENCI, the public enterprise marketing wheat, oil, dairy products, maize, etc., received 7 billion.

The result of all this was that after having increased during the two previous years, current government saving fell drastically in 1981 to a value equivalent to barely 0.2% of the gross domestic product, which enabled it to finance only 2% of total capital expenditure.

The nominal growth rate of capital expenditure in 1981 was lower than in the previous three years. Gross capital formation increased for the third year running at a nominal rate of over 90%. As a result, its real value was over 60% higher in 1981 than in 1975. This growth was mainly concentrated in three sectors: housing and construction, transport and communications, and food and agriculture. Amortization payments, for their part, increased in nominal terms by 59% in 1981, a notable feature being the 114% rise in amortization of the domestic debt.

Table 20

PERU: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values in billions of soles				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
1. Current income	264	552	1 020	1 523	71.1	109.4	84.6	49.3
Tax revenue	259	530	1 022	1 480	77.5	105.0	92.9	44.8
Income and property taxes	66	146	361	414	53.3	121.9	147.0	14.6
Export taxes	32	88	123	116	96.9	176.8	39.8	-5.8
Import taxes	39	68	158	321	99.5	74.2	132.6	102.3
Production and consumption taxes	122	227	379	629	82.0	86.9	66.8	66.0
Non-tax revenue ^b	19	59	78	141	26.7	208.4	32.8	80.4
Less: refund certificates ^c	(14)	(36)	(80)	(98)	(112.3)	(163.0)	(121.2)	(22.0)
2. Current expenditure	291	459	898	1 506	50.7	57.7	95.6	67.7
Wages and salaries	97	122	238	448	38.4	25.5	94.9	88.2
Interest	72	138	214	382	145.9	92.5	54.8	78.5
Internal debt	(33)	(62)	(92)	(203)	(140.4)	(89.6)	(48.4)	(120.7)
External debt	(39)	(76)	(122)	(179)	(150.6)	(94.9)	(60.1)	(46.7)
Other current expenditure	122	199	446	676	30.2	63.0	124.5	51.6
3. Saving on current account (1 - 2)	-27	93	122	16	-30.0	441.4	30.4	-86.7
4. Capital expenditure	139	269	472	770	87.8	93.7	75.3	63.1
Gross capital formation	43	92	178	352	56.8	117.4	92.6	97.8
Other capital expenditure	15	36	84	84	16.9	138.2	132.0	0.0
Amortization payments	81	141	210	334	39.8	73.1	49.3	59.0
Internal debt	(15)	(21)	(28)	(60)	(34.9)	(39.5)	(36.6)	(114.3)
External debt	(67)	(120)	(182)	(274)	(189.6)	(80.5)	(51.4)	(50.5)
5. Total expenditure (2 + 4)	430	728	1 370	2 276	61.0	69.4	88.1	66.1
6. Fiscal deficit (1 - 5)	-166	-176	-351	-753	47.2	5.9	99.0	114.9
7. Financing of deficit	166	176	351	753	47.2	5.9	99.0	144.9
Domestic financing	92	113	154	345	66.3	22.7	36.3	124.8
External financing	75	64	197	408	28.9	-14.8	210.2	107.2

Source: Banco Central de Reserva del Perú.

^aPreliminary figures.

^bIncluding wage and salary discounts for pension funds.

^cMainly tax refund certificates for export promotion.

Fiscal policy during the year was characterized by important measures in the tax field which constituted in reality a far-reaching tax reform. This should make the tax system more efficient in the future by reducing the number of taxes, lowering the majority of the rates and creating a tax unit which will be linked to the rate of inflation.

The most drastic changes occurred in the field of sales taxes, which were replaced by a value added tax covering both wholesale and retail sales. Imports and some services are included, but exports and certain goods such as basic foodstuffs, medicines and agricultural machinery, are exempt from payment of this tax, which is levied at the rate of 16%. Added to this is a selective tax on consumption at rates ranging between 10% and 116%, applicable to certain goods such as cigarettes, alcoholic beverages and soft drinks, automobiles, colour television receivers, etc.

Finally, changes were also made in taxes on company and personal income, as well as on export activities.

DOMINICAN REPUBLIC

1. Recent economic trends: Introduction and summary

The efforts made in 1981 to contain public expenditure and bring down the fiscal deficit, to restrict imports and reduce the serious external imbalance, and to slow down the rate of increase in prices, in the means of payment and in the external debt met with significant success in several respects, but at the same time helped to curb the growth of economic activity, consumption and investment.

The gross domestic product, which had increased by a little over 6% in 1980, grew in 1981 at a rate of only slightly over 3%, which in per capita terms was less than 1%, notwithstanding the satisfactory results obtained in such important activities as agriculture and mining. At the same time, however, gross income increased by slightly more than the product (approximately 4%), thanks to a further improvement—although much less than that registered in 1980—in the terms of trade (see table 1 and figure 1).

In contrast with the scanty expansion of domestic demand and of important sectors of production, exports of goods and services rose by about 19% in current values and 9% in volume. Basically, this was the result of the favourable terms on which it proved possible to sell sugar and sugar products, in spite of the fall in the price of this commodity on the international markets.

On the other hand, imports of goods and services fell by approximately 7%, which adversely affected the normal supply of consumer goods, raw materials and intermediate and capital goods. This occurred after two years of vigorous growth and was clearly in response to the measures adopted for the purpose.

The opposing trends pursued by imports and exports in 1981 reduced the trade deficit by over half and the balance-of-payments current account deficit by 44%. Notwithstanding the considerably smaller net inflow of capital than in 1980, this permitted a further increase in the country's international reserves.

During the year there was a gross capital inflow in the form of loans with a term of more than one year amounting to slightly over US\$ 150 million, i.e., less than half the amount disbursed the year before and only equal to the amortization payments, so that the external debt at the end of 1981 was the same as that accumulated one year earlier.

The policy of containing public expenditure, which was so successfully implemented in 1980 when the fiscal deficit dropped by 40%, showed results that were not so spectacular in 1981—since they were not accompanied by such a high increase in income as that obtained in the previous year—but were nonetheless significant, as the deficit dropped once again, this time by 10%, so that as a proportion of total government expenditure it fell from 33% to 16% between 1979 and 1981. In the latter year the contraction of expenditure mainly affected public investment.

Somewhat in contrast with the slow movement of the different economic activities and variables in 1981, the means of payment increased from December to December by about 8%. Although this percentage was much higher than that recorded in 1980, it was still lower than the growth rate of the gross domestic product expressed in current values. Currency outside banks, however, which had scarcely changed in 1980, increased by 18% in 1981.

The variation in domestic prices was more accentuated if measured between December 1980 and December 1981, but if the variation between the annual averages of the index is considered it dropped to less than half (from nearly 17% to 7.5%). This slowing-down of the rate of inflation was connected on the one hand with the favourable results of agricultural production for domestic

consumption, and on the other hand with the insufficiency of money in circulation, which dampened demand.

Apart from the efforts made during the year to counteract the unfavourable trends of some variables and to correct the fiscal and external deficits obstructing the inflow of foreign capital, a considerable proportion of the diminished investment was devoted to strengthening the basic infrastructure and expanding social services, primarily in rural areas. One-third of capital expenditure was assigned to agriculture.

At the same time, priority continued to be given to investment designed to increase the capacity for the generation of electricity, mainly of coal-based thermal plants in the short term, and of hydroelectric plants over the longer term.

Lastly, steps continued to be taken to promote the education and health sectors, which absorbed over 21% of total government expenditure in 1981. It should be noted that per capita expenditure on health almost trebled over the last three years, and this has been reflected primarily in the improved health conditions of the rural population. Coverage of this population by health services was extended from 40% to 69% over the period in question.

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators						
Gross domestic product at market prices (millions of dollars at 1970 prices)	2 808	2 948	3 012	3 156	3 333	3 446
Population (millions of inhabitants)	5.37	5.51	5.66	5.80	5.96	6.10
Per capita gross domestic product (1970 dollars)	523	535	533	544	560	565
Growth rates						
B. Short-run economic indicators						
Gross domestic product	6.7	5.0	2.2	4.8	5.6	3.4
Per capita gross domestic product	3.9	2.3	-0.4	2.2	2.9	0.9
Gross income ^b	0.6	3.5	1.9	4.7	7.6	3.9
Terms of trade (goods and services)	-28.8	-8.5	-3.5	1.0	13.5	3.5
Current value of exports of goods and services	-16.5	10.0	-10.7	37.1	12.0	19.3
Current value of imports of goods and services	-1.9	10.8	5.2	28.6	29.3	-6.8
Consumer prices^c						
December - December	7.0	8.5	8.8	25.6	4.6	7.4
Variation between annual averages	7.9	12.8	7.1	9.2	16.8	7.5
Money	0.8	17.9	4.2	29.5	2.4	7.6
Current income of government	-11.3	9.9	-6.8	16.5	29.0	4.5
Total expenditure of government	-12.9	9.0	9.2	48.9	6.1	1.8
Fiscal deficit ^d /total expenditure of government	2.4	0.2	14.4	32.9	18.5	16.3
Millions of dollars						
C. External sector						
Trade balance (goods and services)	-147	-170	-326	-349	-647	-272
Balance on current account	-133	-132	-315	-360	-675	-378
Variation in net international reserves	-14	38	-29	8	44	31
Total disbursed external debt	879	1 034	1 149	1 373	1 559	1 563 ^e

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cThe figures for 1976 and 1977 relate to the Santo Domingo index (1969 = 100). From 1978 onwards they relate to the national index (1976 - 1977 = 100).

^dPercentage.

^eAt September.

2. Trends in economic activity

(a) *Total supply and demand*

The fall from 5.6% to 3.4% in the growth rate of the gross domestic product in 1981 was accompanied by an appreciable contraction (12%) in the volume of imports of goods and services, so that total supply, which had registered increments of around 6% annually in the previous two years, showed an increase of less than 1% (see table 2).

In contrast with what occurred in the case of imports, the volume of goods and services exported experienced a marked recovery after the sharp and substantial decline it had shown in 1980, increasing by a little over 9%. This fact, as well as giving an impetus to the domestic product, meant that the domestic availability of goods and services in 1981 remained at virtually the same level as in the preceding year, with the consequent effects on investment and consumption.

In the first place, gross investment fell by close to 7% and gross capital formation, which had registered an increase of around 14% in 1979 and a little over 4% in 1980, grew by less than 3% in 1981.

The effects of the scanty increase in investment were especially evident in the case of public investment, which dropped by 8% as a result of the policy of containing public expenditure and the difficulties in connection with external financing. Private investment, on the other hand, grew by approximately 6%, which was associated with capital formation in machinery rather than in construction.

Consumption expenditure registered only a slight increase—considerably below that of the previous year—and general government expenditure rose by less than 1%, in keeping with the austerity criteria applied. Furthermore, it is estimated that the growth of private consumption was substantially less than in 1980, likewise in accordance with the deterioration of the general economic situation.

(b) *Evolution of the main sectors*

Looking at the sectoral growth of the gross domestic product it is observed that the loss of impetus of economic activity in 1981 was most evident in basic services, and especially in other services. In particular, transport, storage and communications, which increased by a little over 3%, and commerce and financial activities, which grew by about 4% (both considerably lower figures than those registered in 1980), reflected the lack of dynamism of some production activities and the appreciable fall in the volume of imports of goods and services. At the same time, a sharp reduction was observed in the growth rates of the remaining services (see table 3).

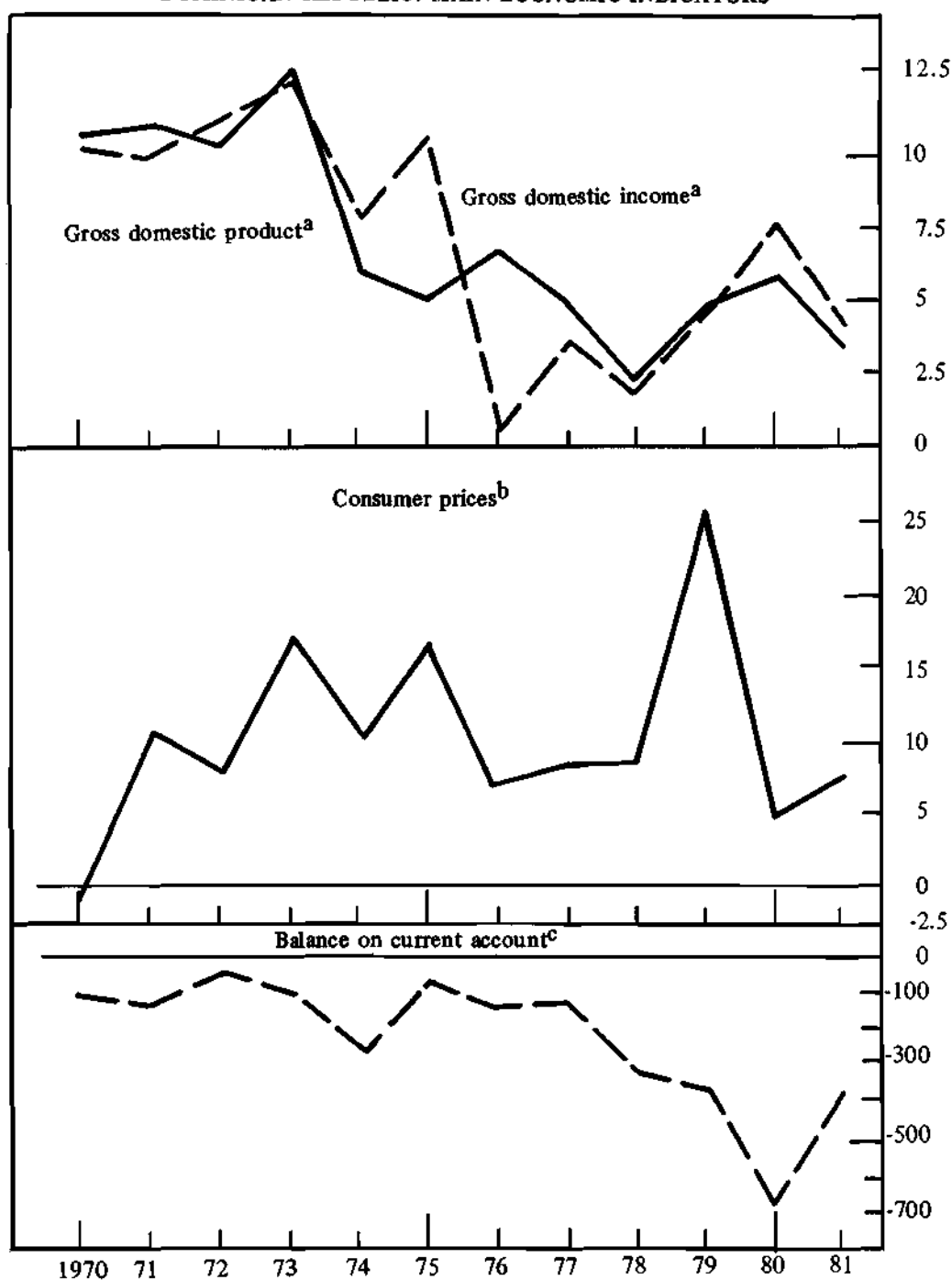
Contrary to the general declining trend of the economic growth rate, agricultural production attained an exceptional increase of approximately 7%, which represents a useful recovery from the erratic evolution of this activity in the previous four years, when it grew at a rate of 1.6% annually. In addition, mining output rose by slightly over 6%, after the severe fall it had experienced in the previous year and notwithstanding the further decrease in the production of bauxite, which has dropped by 30% since 1977.

In contrast with the notable recovery of the primary production sectors, the growth rate of manufacturing fell to only 2% while construction, adversely affected by the lack of impetus from investment and the smaller domestic demand, remained practically at the previous year's level.

(i) *The agricultural sector.* The favourable results obtained by agriculture for domestic consumption and livestock production, which rose 14%, and the increase in some export commodities (which, however, altogether grew by only 2%), placed the agricultural sector at the head of all productive activities with an increase in its product of close to 7%, contrasting with the drop registered in the preceding year and its slow growth since 1977.

This performance was due on the one hand to the favourable weather conditions and on the other to the investments made in the two preceding years. At the same time, the support prices of some commodities for domestic consumption constituted an excellent incentive for raising production. Thus, during the year the producers' prices were raised for rice (16% for white rice and 6% for unhulled rice), maize (9.4%) and black beans (9.4%).

Figure 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bPercentage variation from December to December.

^cMillions of dollars.

In spite of the higher production of foodstuffs, there were increases in imports of rice, maize and oilseeds; on the other hand, exports of some other crops rose. The increased domestic supply contributed to the fact that the food component of the consumer price index rose very little during the year.

Among the agricultural products for domestic consumption there was a 30% increase in the production of plantains (which represent about 11% of the population's food consumption) thanks to a 22% expansion of the area cultivated and a rise of 6% in yields. As a result, their price dropped 40% (see table 4).

Rice, with a considerable share (30%) of production for domestic consumption, maintained its slow growth (slightly over 2%) of the last few years. In order to cover domestic demand for this grain and ensure adequate reserves for at least three months' consumption, it was necessary to increase imports by 23%.

There was also a rise of only about 3% in the production of red beans, the producers' price of which did not vary much. This was offset, however, by a sizeable increase (14%) in the production of black beans, encouraged by higher prices. Domestic consumption of beans has shifted to the black variety, which has only been produced in the country since 1976, so it was not necessary to import the red variety in 1981 as had been done in preceding years.

Production of maize, which is mostly for animal consumption and the animal food concentrates industry, grew by nearly 40%, thus reversing the declining trend of the past three years. This expansion was associated with a rise of over 9% in producers' prices, which was an incentive to a 32% extension of the cultivated area and an improvement of approximately 6% in yields. In spite of the significant increase in production, imports rose by 9% with the object of building up reserves.

Yuca, production of which reached a record of 230 000 tons in 1977 but subsequently dropped to 82 000 tons by 1980, registered an increase of nearly 50% in 1981. This was achieved thanks to an extension of 30% in the area under cultivation and an improvement of 13% in yields, and

Table 2

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	3 775	3 998	4 033	120.7	117.0	6.5	5.9	0.9
Gross domestic product at market prices	3 156	3 333	3 446	100.0	100.0	4.8	5.6	3.4
Imports of goods and services ^b	619	665	387	20.7	11.0	16.3	7.4	-11.8
Total demand	3 775	3 998	4 033	120.7	117.0	6.5	5.9	0.9
Domestic demand	3 254	3 571	3 567	105.0	103.5	4.3	9.7	-0.1
Gross domestic investment	789	842	785	20.2	22.8	8.0	6.7	-6.8
Gross fixed investment	751	783	804	20.0	23.3	13.6	4.3	2.7
Private	597	609	644	13.8	18.7	25.7	2.1	5.8
Public	154	174	160	6.2	4.6	-17.3	12.7	-8.0
Construction	426	457	459	12.7	13.3	5.1	7.3	0.5
Machinery and equipment	325	325	345	7.3	10.0	-21.4	0.3	6.0
Changes in stocks	39	59	-19	0.2	-0.6			
Total consumption	2 465	2 729	2 782	84.8	80.7	3.2	10.7	1.9
General government	249	268	271	9.7	7.9	23.4	7.9	0.9
Private	2 217	2 461	2 511	75.1	72.8	1.3	11.0	2.0
Exports of goods and services ^b	521	427	466	15.7	13.5	22.6	-18.0	9.2

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by ECLA for the purpose

brought about a sharp fall (32%) in prices. Other products such as pigeon peas, sweet potatoes and taro, considerable proportions of which are destined for the external market (36%, 15% and 41%, respectively), also registered significant production increases with consequent repercussions on exports and domestic prices.

Among the export commodities, the sugar cane harvest —which had been going down since 1977— experienced a slight recovery of a little over 2% thanks to the favourable rainfall and the elimination of the disease which had affected the cane fields in the previous year. Cocoa production rose by 11% as a result of the efforts made to rehabilitate plantations affected by the 1979 storms, and this raised productivity by 12%.

In contrast, output of coffee and to a lesser extent of tobacco showed decreases of about 9% and 1%, respectively. The coffee harvest was affected by the prolonged rainfall, which prevented the plants from flowering normally. Production of tobacco was attacked by blue mould which mainly damaged the seed-beds, causing a 5% decrease in the area cultivated.

In livestock production, poultry output showed the biggest increase. Production of poultry meat, which has grown fast in the last few years, rose a further 35% in 1981, thus compensating for the shortage of pork caused by the outbreaks of African swine fever in the years 1978-1979. In the case of beef, although production grew by only 2%, exports increased (see table 4).

Agricultural policy continued to be aimed primarily at stimulating production for domestic consumption; 85% of agricultural credit was used for this purpose, greater use was made of mechanization, the supply of inputs was improved and infrastructure works were carried out. The scope of these measures was limited, however, by the shortage of financial resources.

With respect to agrarian reform, 25 settlements with a total area of over 13 000 hectares (comparing favourably with the 14 settlements totalling slightly over 10 500 hectares set up in 1980) were established and provided with credit, services and technical assistance. Land under the agrarian reform system produces 9% of the country's agricultural output and nearly 20% of that destined for domestic consumption.¹

Table 3

**DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product^b	2 816	2 973	3 074	100.0	100.0	4.8	5.6	3.4
Goods	1 368	1 377	1 434	50.2	47.0	5.7	0.6	4.1
Agriculture	526	521	557	24.6	18.3	1.1	-0.9	6.9
Mining	168	143	152	1.6	5.0	28.2	-14.8	6.2
Manufacturing	463	486	497	17.0	16.3	4.6	5.0	2.1
Construction	211	226	228	7.0	7.4	5.2	7.1	0.8
Basic services	310	329	344	9.9	11.3	4.3	6.2	4.6
Electricity, gas and water	50	56	62	1.3	2.0	2.2	11.4	10.2
Transport, storage and communications	260	273	282	8.6	9.3	4.7	5.2	3.3
Other services	1 122	1 245	1 273	39.9	41.7	4.5	11.0	2.2
Commerce and finance	382	411	427	12.9	14.0	2.8	7.5	3.9
Ownership of dwellings	210	224	226	7.5	7.4	5.0	6.5	0.8
Community, social and personal services	530	610	620	19.5	20.3	5.5	15.3	1.6
Government services	271	319	324	10.7	10.6	17.8	17.6	1.4

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

¹These settlements contributed approximately one-third of the total production of rice, 53% of that of taro, 24% of that of yams, nearly 20% of that of yuca and onions, and 14% of that of red beans.

Table 4

DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Percentage of total production		Growth rates ^b		
					1973	1981 ^a	1979	1980	1981 ^a
Index of agricultural production (1973 = 100)	108	110	103	112	100.0	100.0	2.2	-6.7	8.5
Crop farming	106	106	97	103	78.2	72.6	0.3	-8.5	6.6
For export	108	107	95	97	48.2	41.5	-1.3	-11.3	1.8
For domestic consumption	102	105	101	115	30.0	31.1	3.0	-3.9	13.9
Stock-raising	116	125	124	141	21.8	27.4	8.6	-1.3	13.9
Products for export									
Sugar	102	102	89	91	24.4	19.7	0.4	-13.4	2.3
Cocoa	106	117	93	103	10.4	9.6	10.0	-20.9	11.6
Coffee	131	128	130	119	6.7	7.1	-2.5	1.8	-8.7
Tobacco	113	87	86	85	6.7	5.1	-22.7	-1.7	-0.8
Products for domestic consumption									
Rice	125	138	143	147	7.3	9.5	7.3	3.9	2.2
Red beans	101	130	126	130	2.3	2.6	28.5	-3.4	3.4
Maize	95	93	86	120	1.6	1.6	-2.7	-7.4	39.4
Plantains	99	106	104	135	7.8	9.4	6.9	-1.6	29.7
Taro	93	103	93	97	1.3	1.2	11.5	-10.3	4.3
Yuca	85	68	36	53	4.2	2.6	-19.6	-47.3	47.0
Other products	86	79	84	87	5.5	4.2	-7.6	5.5	3.4
Livestock products									
Milk	106	110	114	119	4.0	4.3	3.6	4.5	3.6
Beef ^c	105	103	112	114	11.4	11.6	-2.3	8.9	2.0
Pork ^c	114	123	...	...	2.5	...	7.9	...	...
Poultry meat ^c	158	211	247	334	3.9	11.5	33.7	17.3	34.8

Source: ECLA, on the basis of data supplied by the Ministry of Agriculture.

^aPreliminary figures.

^bThe growth rates have been calculated on the basis of real figures, not from the indexes.

^cSlaughtering.

(ii) *Mining.* After the 15% contraction in mining output in 1980 owing to the pronounced drop in silver and ferronickel and, to a lesser degree in bauxite, growth of 7% was registered in 1981 as a result of the increases of 10% in the production of gold and 25% in the output of silver, which represent between them about two-thirds of mining production. This increase, in a year in which world prices suffered a considerable decline (25% for gold and over 50% for silver), was obtained from the Pueblo Viejo mine, which has been the property of the State since 1979. Not until July, when world prices reached their lowest ebb, did the Government suspend sales of both metals to await a recovery in prices, which showed a certain improvement in the last quarter of the year (see table 5).

Ferronickel, the second most important product of the Dominican Republic's mining sector, showed signs of recovery with production rising by slightly over 9% after the 35% drop in 1980, when unfavourable market conditions halted production for five months. In 1981 there was a slight recovery (2%) in world prices of ferronickel, as well as a drop in the prices of petroleum-derived fuels, which have a high incidence in the industry's production costs.

On the other hand, production of bauxite fell by 18%, thus pursuing the declining trend initiated in the mid-1970s. Since 1974 the volume produced has decreased by two-thirds.

Finally, exploration activities to locate coal deposits with commercial possibilities continued during the year.

(iii) *Manufacturing.* The growth of approximately 5% annually registered in the manufacturing product in recent years fell to only 2% in 1981. This slow growth may be ascribed basically to the fact that in 1981 many manufacturing enterprises were affected by lack of credit and

the measures restricting imports. In the middle of the year the purchase of imported inputs with foreign exchange from the Central Bank was limited to 90% of the annual purchases made in the two years 1979-1980. Imports exceeding that limit had to be effected with foreign exchange obtained on the open market at about 30% more than the official price.

Manufacturing output was also influenced by the drop in public investment and the change in the orientation of economic policy which tended to favour primarily rural activities, so that urban construction and indirectly those industries producing construction materials were adversely affected. Thus, cement production fell by slightly over 5% and output of steel by 1%. Nevertheless, the sugar industry and the food and beverages industry in general, which represent more than 60% of total manufacturing output, displayed a fairly dynamic performance (see table 6).

Table 5

DOMINICAN REPUBLIC: INDICATORS OF MINING PRODUCTION							
	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Index of mining ^b production (1975 = 100)	123	158	135	144	28.2	-14.8	6.9
Production of the main minerals							
Bauxite ^c	568	524	511	405	-7.7	-2.6	-17.7
Ferronickel ^c	38	66	43	47	75.6	-34.9	9.4
Gold ^d	343	353	370	408	3.0	4.7	10.3
Silver ^d	1 849	2 276	1 623	2 034	23.4	-28.7	25.3

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bBased on the four principal metals, excluding the extraction of stone, sand and clay, exploitation of salt and production of gypsum and limestone.

^cThousands of tons.

^dThousands of troy ounces.

Table 6

DOMINICAN REPUBLIC: SOME INDICATORS OF MANUFACTURING PRODUCTION									
	1977	1978	1979	1980 ^a	1981 ^b	Growth rates			
						1978	1979	1980 ^a	1981 ^b
Production of some items									
Raw sugar ^c	1 128	1 057	1 069	911	1 018	-6.2	1.1	-14.8	15.0
Refined sugar ^c	94	106	97	102	107	13.2	-8.2	4.8	7.0
Hulled coffee ^c	60	43	60	60	34	-27.9	39.1	-0.5	3.4
Beer ^d	52	58	66	76	59	11.0	13.7	15.3	9.4
Cigarettes ^e	217	224	225	219	164	3.5	0.4	-2.7	3.5
Cement ^f	20	20	21	24	17	-0.9	2.2	14.5	-2.4
Wheat flour ^g	2 726	2 590	3 020	3 346	2 416	-5.0	16.9	10.5	-6.2
Other indicators									
Consumption of electric power ^h	577	618	662	719	698 ⁱ	6.9	7.1	8.6	6.6 ⁱ

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bRelates to the period January-September. The rates have been calculated with respect to the same period in 1980.

^cThousands of tons.

^dMillions of litres.

^eMillions of packets.

^fMillions of 42.5 kg sacks.

^gMillions of quintals.

^hMillions of kWh.

ⁱRelates to the period January-November. The rate has been calculated with respect to the same period in 1980.

Table 7

DOMINICAN REPUBLIC: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980	1981 ^a	Growth rates		
					1979	1980	1981 ^a
Area constructed^b (thousands of m ²)							
Total	1 438	1 048	1 099	613	-27.1	4.9	-44.2
Production of some building materials (thousands of tons)							
Structural steel	54	37	51	50	-30.6	36.9	-1.1
Cement	867	886	1 015	960	2.2	14.5	-5.4

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bBuilding permits.

Independently of the conjunctural factors which affected manufacturing in 1981, its evolution over the medium term has shown a tendency towards a slower rate of growth, as though the factors underlying its dynamism had gradually lost their validity. From 1968, when the Industrial Incentives Law was promulgated, to 1975 manufacturing output grew at a rate of 10% annually, with all the favourable repercussions this implied for the economy. Although one factor in this evolution was the external demand for Dominican sugar, its real basis was import substitution in respect of final manufactured goods, which, however, always had a high content of imported raw materials and components. Between 1976 and 1981 the average growth rate of manufacturing production fell to only 4% annually.

(iv) *Construction.* The level of construction activity remained practically unchanged in 1981 with respect to the previous year. In 1980 it had shown significant growth of over 7%, partly as a result of the reconstruction projects and activities due to the damage caused by the storms of September 1979 and hurricane Allen in August 1980.

Construction was particularly affected by the fall in investment, especially that of the public sector. The Government's financial restrictions made it necessary to postpone the initiation of new works and to concentrate the scarce available resources on projects already under way, above all those related to agriculture.

Furthermore, housing construction (as measured by the building permits issued) suffered a drastic fall of 44% in 1981; in 1979 it had already decreased by 30%, and there had only been a slight recovery of 5% in 1980 (see table 7).

3. The external sector

During the three years 1978-1980 the external imbalance got worse. Between 1977 and 1980 the current account deficit rose from US\$ 130 to US\$ 675 million, the latter amount representing more than half the total exports of goods and services. In 1981, however, the notable recovery of exports combined with a fall in imports permitted reductions of 60% in the trade deficit and over 40% in the current account deficit, which thus returned to a level of US\$ 380 million, similar to that registered two years before.

Exports of goods rose by 24%, stimulated by the favourable prices at which Dominican sugar was sold (despite the drop in the price of this commodity on the world market) and by the increases in the volume of sales of coffee, tobacco and sugar, among other commodities. Indeed, not only did their volume increase by nearly 13% but their unit value also rose more than 9% (see table 8).

Imports of goods, for their part, fell by just over 5% after their rapid expansion in the previous two years. While the volume of imported goods dropped by approximately 9% as the

result of a number of measures adopted with that end in view, the unit value of imports experienced a considerably smaller increase than in previous years, rising by less than 4%. This may be ascribed, in particular, to the relative stability of the price of crude petroleum, purchases of which amount to about one-third of total imports.

The significant increase in the average sale price of sugar helped to offset the drop in the prices of other agricultural and mining commodities and to raise the index of the unit value of exports by slightly over 9%. This increase exceeded that of the unit value of imports, so that the terms of trade improved by about 6% during the year.

At the same time the purchasing power of exports of goods rose 18% thanks to the combination of the improvement in the terms of trade with the 13% increase in the volume of exports, while the purchasing power of exports of goods and services rose by 14%.

(a) *Merchandise trade*

(i) *Exports.* The value of exports grew by close to 24%, as a result of the increases in both the volume of sales (13%) and the unit value (9%). This expansion was due essentially to the rise in the value of exports of sugar and its by-products (furfural and molasses), which together represented almost half the total external sales, and to a lesser extent to the rise in the export value of tobacco, since the remaining exports of any significance showed a decrease. For their part, non-traditional exports fell and their relative importance in the total value of exports of goods dropped from 46% in 1980 —when they registered their maximum share— to 35% in the year under review (see table 9).

As from the last few months of 1980 the price of sugar on the world market, which had risen to over 43 US cents per pound, began to fall and was less than 11 US cents in September 1981. Nonetheless, thanks to sales contracted before the decline in price or under preferential agreements, it was possible to place this commodity at an average price of close to 27 US cents. This situation was in sharp contrast with that of the previous year, when the unit value of the Dominican Republic's sugar barely exceeded 16 US cents, while the world market price was over 28 cents. Added to the 65% increase in the average sales price was a 7% expansion in volume, so that the value of raw sugar exports in 1981 rose by close to 80%. The value of sales of furfural and molasses went up by 28% and 24%, respectively.

Table 8

DOMINICAN REPUBLIC: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981 ^a
Growth rates					
Exports of goods FOB					
Value	8.9	-13.5	28.6	10.7	23.5
Volume	15.0	-16.1	15.0	-23.3	12.8
Unit value	-5.3	3.2	11.8	44.3	9.4
Imports of goods FOB					
Value	11.2	1.5	31.9	33.6	-5.3
Volume	5.1	-6.3	19.5	8.7	-8.7
Unit value	5.8	8.4	10.4	22.9	3.8
Terms of trade	-10.6	-4.5	1.2	19.3	5.8
Indexes (1970 = 100)					
Terms of trade	89.5	85.5	86.6	103.2	109.3
Purchasing power of exports of goods	180.3	145.5	169.2	155.7	183.8
Purchasing power of exports of goods and services	178.4	148.6	184.1	171.4	195.4

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

^a Preliminary figures.

Table 9

DOMINICAN REPUBLIC: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total^b	676	869	962	1 188	100.0	100.0	28.6	10.7	23.5
Traditional exports	462	539	509	762	87.9	64.1	16.7	-5.6	49.7
Raw sugar	172	191	290	513	48.5	43.2	11.0	52.0	76.8
Coffee ^c	97	158	77	76	13.5	6.4	62.6	-51.3	-1.3
Cocoa beans	86	73	51	45	9.0	3.8	-14.5	-28.8	-12.3
Leaf tobacco	46	55	36	66	6.6	5.5	19.9	-36.6	88.5
Furfural	30	27	21	27	2.4	2.3	-9.9	-23.5	27.9
Molasses	8	14	15	19	0.8	1.6	77.2	7.9	23.8
Bauxite	23	21	19	16	7.1	1.3	-9.5	-11.5	-15.1
Non-traditional exports	204	320	445	418	...	35.2	56.9	39.1	-6.1
Gold and silver	73	128	259	208	-	17.5	75.5	103.1	-19.9
Ferronickel	73	123	101	110	-	9.3	69.7	-17.9	9.1
Chemical fertilizers	4	17	19	14	-	1.2	211.1	69.6	-25.3
Leather manufactures	7	7	6	6	-	0.5	-1.3	-15.1	-6.4
Other manufactured products	32	37	41	55	...	4.6	15.6	10.8	34.2
Other agricultural products	15	15	19	25	2.9	2.1	-	26.7	31.6

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

^bIncluding unclassified exports of minimal importance.

^cIncluding roasted coffee.

Exports of leaf tobacco, which in 1980 had fallen considerably (37%), rose by nearly 90% in 1981 once the marketing difficulties with the main European buyer had been overcome. This increase was basically due to the bigger volume exported which, as production had stagnated, was made possible by drawing on stocks. Prices for their part rose by about 7%.

Coffee sales remained practically at the sale level as in 1980, when they had already fallen sharply to almost half their value. On the one hand, exports of roasted coffee (which represent approximately one-third of total sales) decreased by close to 50%, while sales of unroasted coffee rose by about 20% thanks to the bigger volume of sales (35%), since prices — in line with the trend of previous years — fell by 12%. Owing to the decline in the production of unroasted coffee, the increase in the volume exported meant a smaller supply for the manufacturing sector and a decrease in stocks.

The value of exports of cocoa dropped (12%) for the third consecutive year since, although the volume sold increased by 35% with the rise in production, this was insufficient to offset the 24% drop in prices.

As regards minerals, the only increase was in exports of ferronickel (9%); exports of doré (gold and silver alloy) fell by 20% and those of bauxite (which had steadily been losing relative importance since 1978) by 15%. The rise in sales of ferronickel was due to increases in both volume and price; in contrast, the price of doré declined drastically and the volume of bauxite sales affected by lower production, dropped considerably.

(ii) *Imports.* After growth of over 30% in each of the two previous years, in 1981 the value of imports of goods contracted by about 5%. This was due to their smaller volume (about 9% less), since prices rose by about 4%, although this was in any case much lower than the rate recorded in previous years (see table 8).

The drop in external purchases was basically reflected in the smaller volume of imports of intermediate, capital and luxury goods rather than consumer goods, and was the result of the various measures adopted to reduce imports. It also involved changes in the structure of imports, as in spite of the rise in production of some essential foodstuffs, external purchases of these items increased.

Although only piecemeal information is available, everything seems to indicate that imports of foodstuffs continued to grow, although at a slower pace than in 1980, since the rise in the domestic supply of agricultural commodities enabled the volume of cereals and grains purchased abroad to be reduced compared with the previous year, when they had doubled.

The value of purchases of petroleum and petroleum products rose 11% and their share in the total value of imports increased from 30% to 35%. Imports of inputs, capital goods and durable consumer goods, for their part, were affected by the stagnation of construction and the moderate growth of manufacturing.

A policy of containing imports was implemented during the year. Under one of the measures put into practice, the number of imported goods for which foreign exchange is not provided by banks and must therefore be purchased with foreign currency bought on the open market was increased. At the same time, quotas were established for the purchase of raw materials, while inputs of some goods, mainly automobiles, were banned. Added to these restrictions was the requirement already in force since 1980 for advance payment of letters of credit for imports.

Although this policy obtained positive results by managing to reduce the external imbalance, it affected the evolution of the economy. Thus, the restrictions on external purchases of inputs, in an economy in which production of the manufacturing and construction sectors has a high import content, hindered its rate of activity. Furthermore, the larger proportion of imports paid for with foreign exchange obtained on the open market—at a rate 30% higher than the official exchange rate—had repercussions similar to those of a devaluation, with costs and prices rising but exports no cheaper.

Added to the above situation were the Central Bank's delays in remitting foreign exchange abroad under the terms of letters of credit, which meant interest surcharges for importers, who had to transfer them to the prices of imported goods.

At the same time, it should be noted that in spite of the increased demand for foreign exchange on the open market resulting from the measures adopted, the exchange rate rose by only 2% compared with 3% in the previous year.

(b) The services trade and factor payments

In 1980 tourist income and expenditure for the first time showed a small positive balance in favour of the country. In 1981 this balance increased considerably to US\$ 75 million in consequence of a drop in expenditure under the heading of travel abroad, because of the more expensive foreign exchange and the moderate growth rate of economic activity.

Income from tourism rose 16%, i.e., less than in the two preceding years (35% and 40%); this is mainly explained by the reduction in the average length of stay (which fell from 8.1 to 7.3 nights) of foreign visitors arriving by air whose expenditure represents nearly 80% of the country's inflows under the heading of tourism. On the other hand, the number of visitors rose 13%, or considerably more than in 1980 (5%), notwithstanding the drop in the number of cruise-ship visitors, which was however unimportant, since they tend to spend an average of only about US\$ 20 in the country.²

On the other hand, the number of Dominican nationals living abroad who visited the country increased significantly in 1981 (35%), as also in the previous year (47%), which meant an increase in income from US\$ 28 to US\$ 44 million.

With the inauguration of two hotels, one in Higüey and the other in Santiago de los Caballeros, the hotel capacity was increased by close on 500 rooms to 4 200 rooms, 54% of them in the capital city. A passenger ship terminal was also inaugurated in Santo Domingo and is expected to help counteract the decline in visits by cruise-ships, which previously only called in at Puerto Plata.

²In 1980, out of a total of 566 423 visitors, 53% were foreigners travelling by air, 32% were foreigners who arrived by sea, and 15% were Dominican nationals not resident in the country.

At the same time, efforts to promote the tourist complex on the north coast continued. INFRATUR, in charge of the Puerto Plata Project,³ received a Central Bank loan of US\$ 21 million in 1974 with which it financed part of the construction of the basic infrastructure, including the improvement of the Puerto Plata airport, whose total cost will be US\$ 46 million. In 1979 the World Bank granted a further loan of US\$ 25 million destined mainly to finance credit lines for the construction of hotels.

Remittances of profits and interest payments, which had represented a net outflow of some US\$ 100 million in 1977, grew rapidly to nearly US\$ 300 million in 1981. On the one hand, interest payments have almost quadrupled over this period in consequence of the increase in the external debt, added to which in the last year was the higher cost of the use of capital, while remittances of profits, for their part, rose from US\$ 70 million in 1977 to US\$ 180 million in 1981, despite the fact that in 1979 the State purchased the Pueblo Viejo gold and silver mine which was owned by a foreign company (see table 10).⁴

Unrequited private transfer payments, consisting basically of remittances of funds by Dominicans living abroad to their families, grew by 3% in 1981. Up to 1978 these inflows were sufficient to offset external factor payments.

(c) The current account position and its financing

As a result of the appreciable increase (19%) in exports of goods and services in 1981 and the contraction of about 7% in imports of goods and services, an exceptionally large reduction of 58% was achieved in the trade deficit and, even taking into account the greater outflow under the heading of remittances of profits and net interest payments, there was a considerable drop in the current account deficit. The latter, which had surprisingly expanded from US\$ 360 million to over US\$ 670 million in 1980, fell to just under US\$ 380 million in 1981, which represents a more acceptable proportion (25%) of total exports than the 53% recorded in 1980 (see table 10).

Net capital inflows, which had doubled in 1980, contracted by about 40% in 1981. On the one hand the inflow of long-term loans dropped from US\$ 430 million to a little less than US\$ 230 million, while the net inflow of short-term capital fell 30%. On the other hand, the increase in outflows in the form of amortization payments was not very significant (7%) and the inflow of direct investment (US\$ 87 million) was only slightly smaller than in the previous year. Thus the net inflow of short-term capital was only a little less than that of long-term capital, whereas a year before it had represented only 70% of the latter.

In spite of the smaller entry of capital in 1981, it totalled more than the deficit on current account and left a surplus which raised the country's net international reserves by US\$ 31 million. Noteworthy features in this movement of reserves were the decrease of US\$ 29 million in liabilities with the International Monetary Fund (additional to the US\$ 76 million reduction in the previous year); the US\$ 22 million increase in foreign exchange reserves, and the US\$ 14 million drop in gold reserves (see table 10).

(d) External indebtedness

Since the beginning of the 1970s consistent recourse has been had to external financing in order to expand the country's external purchasing power. Thus, the external debt with a term of more than one year amounted to US\$ 1 560 million in September 1981, which is similar to the figure registered at the end of 1980 and slightly more than total exports in 1981 (see table 11).

Of the total external debt, 75% was contracted by the public sector; in contrast, the public sector's share in 1974 was only slightly higher than that of the private sector. In the first nine months of 1981 the amount of credit disbursed (US\$ 154 million) was less than half that disbursed in the whole of 1980.

³This project is divided into two stages. The first, Playa Dorada—which has higher priority—contemplates a capacity of 3 290 rooms in cabanas, hotels, cabanas on golf courses, and apartments, and has been designed for mass tourism. The second, Playa Grande, with a capacity of 1 940 rooms, is designed for tourism by higher-income persons.

⁴The Foreign Investment Law (1978) limits the transfer of profits abroad to 18% of the registered investment.

Table 10

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981
Exports of goods and services	1 010	843	927	828	1 135	1 271	1 517
Goods FOB	894	716	780	675	869	962	1 188
Services ^a	116	127	147	152	266	309	329
Transport and insurance	16	18	19	20	22	26	19
Travel	59	71	92	92	124	173	201
Imports of goods and services	1 009	990	1 097	1 154	1 484	1 919	1 789
Goods FOB	773	764	849	862	1 137	1 520	1 439
Services ^a	236	226	248	292	347	399	350
Transport and insurance	124	103	103	111	132	175	165
Travel	75	90	102	126	158	166	126
Merchandise balance	121	-47	-69	-187	-269	-558	-251
Trade balance	1	-147	-170	-326	-349	-647	-272
Profits and interest	-113	-109	-98	-136	-188	-210	-295
Profits	-78	-73	-69	-97	-136	-156	-180
Interest received	5	9	12	21	32	42	45
Interest paid	-40	-45	-42	-59	-83	-96	-160
Unrequited private transfer payments	34	123	136	146	177	183	189
Balance on current account	-78	-133	-132	-315	-360	-674	-378
Unrequited official transfer payments	5	3	4	4	29	5	18
Long-term capital	159	141	199	187	109	423	220
Direct investment	64	27	71	64	17	93	87
Other long-term capital	95	114	127	123	92	330	133
Official sector ^b	55	80	83	145	114	268	213
Loans received	92	116	111	189	322	242	267
Amortization payments	-38	-40	-27	-44	-202	-37	-54
Commercial banks ^b	-	2	-1	-1	7	-	-7
Loans received	-	6	-	-	8	-	-
Amortization payments	-	-5	-1	-1	-1	-	-7
Other sectors ^b	41	33	46	-21	-29	62	-73
Loans received	72	85	105	56	53	163	14
Amortization payments	-31	-52	-60	-77	-82	-101	-87
Short-term capital	10	11	-62	32	136	294	204
Official sector	24	26	-57	31	29	132	12
Commerce banks	-40	-9	9	19	-16	92	197
Other sectors	26	-5	-15	-19	123	71	-5
Errors and omissions	-69	-35	41	54	84	-14	-26
Balance on capital account	105	119	182	276	358	708	416
Global balance ^c	27	-14	50	-39	-2	33	38
Total variation in reserves (minus sign indicates an increase)	-25	14	-38	29	-8	-44	-31
Monetary gold	-	-	-1	-	-	-5	14
Special Drawing Rights	1	1	1	-	-3	9	-2
IMF reserve position	-	-	-	-	-	-	-
Foreign exchange assets	-27	-12	-57	26	-81	27	-21
Other assets	-	-	-	-	-	-	7
Use made of IMF credit	-	25	19	3	77	-76	-29

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook*; 1981: ECLA, on the basis of data from the Central Bank of the Dominican Republic.

^aServices also include other official and private transactions, but not profits and interest.

^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^cThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Servicing of the debt, which in 1979 represented 28% of total exports of goods and services, fell in the following year to 21%, thanks to the partial renegotiation of the debt, and it is assumed that this proportion did not change much in 1981.

4. Prices and wages

In 1981 the rate of increase in prices declined significantly, notwithstanding the possible effects of the slight devaluation of the currency. Thus, the rise in the consumer price index as measured between annual averages came close to 8%, which was only half the previous year's rate (17%) (see table 12). An attenuating factor in this was the bigger agricultural supply of products for domestic consumption. In the first half of the year this permitted the price index of food, beverages and tobacco to drop in absolute terms, while the annual average remained at the 1980 level. In contrast, the rise in housing was almost three times that of the global index, and clothing and footwear grew at a similar rate.

The slowing-down of the rise in prices was more pronounced in rural than in urban areas. In the former, the average increase was 4%, and in the latter nearly 9%. This is basically explained by the considerable rise in the price of housing in the cities, owing to the rigidity of supply and a demand which is increasing with the pressure of migration from the countryside.

Table 11
DOMINICAN REPUBLIC: EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1976	1977	1978	1979	1980	1981 ^a
Total external indebtedness ^b	879	1 034	1 149	1 373	1 564	1 563
Public debt	470	594	730	980	1 104	1 175
Private debt	409	440	419	393	460	388
Servicing of debt	126	127	176	318	260	...
Amortization payments	86	81	110	236	138	155
Interest payments	40	46	66	82	122	...
Servicing of external debt, as a percentage of total exports of goods and services	15.0	13.7	21.3	28.0	20.5	...

Source: ECLA, on the basis of figures supplied by the Central Bank of the Dominican Republic.

^a At September 1981.

^b End-year balance of disbursed debt with a terms of over one year.

Table 12
DOMINICAN REPUBLIC: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981
Variation December to December				
General consumer price index	8.8	25.6	4.6	7.4
Food	11.2	33.8	-5.2	3.1
Variation between annual averages				
General consumer price index	7.1	9.2	16.8	7.5
Food	9.2	10.9	15.4	0.4

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

Minimum wages have not varied since the adjustment in the middle of 1979, which has meant a deterioration of 7% in real minimum wages in general and approximately 4% in agricultural wages.⁵ (See table 13.)

Owing to the fact that the increases granted to agricultural workers in 1979 were larger than those recorded in wages in general, and considering also that prices have risen more in the cities than in rural areas, this means that real wages in agriculture have improved 7% between 1978 and 1981, while wages in other activities have deteriorated by 9%. It should be noted, however, that the minimum wage level in agriculture was 15% below that of the global minimum wage.

5. Monetary and fiscal policy

(a) Monetary policy

Monetary and financial policies were oriented during the year towards curbing the decrease in reserves and improving the Government's financial position. For this purpose, in addition to the measures put into effect in the middle of 1980, others were introduced with the object of controlling the money supply and bank credit. Thus, the compulsory prior deposit of 100% for imports of a group of goods was maintained and the list of products for which foreign exchange had to be purchased on the open market was extended; quotas were established for imports of raw materials and intermediate goods paid for with foreign exchange granted at the official exchange rate; and imports of some goods were banned. Added to this restrictive policy was the Central Bank's delay in providing the necessary foreign exchange, which meant that the cash deposited for opening letters of credit remained frozen for as much as three months or so.

At the same time, the cost of capital rose with the increase in interest rates and the authorization to commercial banks to charge commissions. Banks were also required to comply strictly with the provisions relating to legal reserves, concerning which a certain flexibility had been observed in the previous two years.

Bank credit expanded by 12%, compared with 21% in the previous year. This increase was wholly absorbed by the public sector (financing destined for the private sector shrank by a little over 1%), which had to resort to a great extent to domestic sources of credit in view of the decreased inflow of external resources (see table 14).

Table 13
DOMINICAN REPUBLIC: EVOLUTION OF MINIMUM WAGES^a

	Indexes				Growth rates		
	1978	1979	1980	1981	1979	1980	1981
Nominal							
Total	100.0	112.5	125.0	125.0	12.5	11.1	-
Agriculture	100.0	120.0	140.0	140.0	20.0	16.7	-
Real							
Total	100.0	103.5	98.0	91.1	3.5	-5.3	-7.0
Agriculture	100.0	109.7	110.9	106.7	9.7	1.1	-3.8

Source: ECLA, on the basis of official figures.

^aEstimated minimum wages correspond to the average for each year. The last minimum wage adjustment was in June 1979.

⁵In June 1979 the minimum monthly wage was increased from 100 to 125 pesos. Wages lower than 300 pesos were raised by 10%, and the minimum daily wage in agriculture went up from 2.50 to 3.50 pesos.

Table 14

DOMINICAN REPUBLIC: MONETARY BALANCE

	End-year balance (millions of pesos)				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Money	496	643	656	706	29.5	2.4	7.6
Currency outside banks	224	274	275	324	22.2	0.5	17.9
Demand deposits	272	369	381	382	35.6	3.2	0.2
Factors of expansion	1 420	1 645	1 884	2 068	15.9	14.6	9.7
Foreign assets (net)	-32	-40	-161	-213	25.0	302.5	32.3
Domestic credit	1 452	1 685	2 045	2 281	16.0	21.4	11.5
Government (net)	265	381	444	586	43.5	16.6	32.1
Official entities	301	314	435	545	4.2	38.9	25.2
Private sector	886	990	1 166	1 150	11.8	17.7	-1.4
Factors of absorption	924	1 002	1 228	1 362	8.4	22.5	10.9
Quasi-money (savings and time deposits)	533	556	595	677	4.4	6.9	13.8
Other items (net)	391	446	633	685	14.1	41.9	8.2

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

^aPreliminary figures.

After increasing in the previous year by a little over 2%, the money supply expanded in 1981 by 8% (slightly less than the growth rate of the gross domestic product expressed in current values) owing to the expansion of currency outside banks (18%), which contrasts with the stagnation noted in 1980. Demand deposits remained practically unchanged.

As regards the factors of absorption, savings and time deposits rose by 14%, or twice the 1980 rate. In the expansion of this variable an important part was played by the increasing number of financial intermediaries,⁶ which pay higher returns than those offered by the commercial banks and have thus expanded their participation in the procurement of savings. In contrast, long-term external loans, included in the section "other items", dropped sharply.

(b) *Fiscal policy*

During the year the Government continued to implement a policy of containing public expenditure and reducing the fiscal deficit, which it had already put into practice in 1980 after the fiscal deficit had more than trebled in 1979 (see table 15).

In 1980 the policy of containing public expenditure considerably curbed the rate of outflows, which grew by only 6% while inflows rose by 29%. The budget deficit was thus reduced by 40% and its relative importance with respect to the gross domestic product at current values fell from 6% in 1979 to only 3% in 1980.

The fiscal deficit decreased once again in 1981, this time by 10%, thanks to the fact that the increase in current income (although not even 5%) was greater than the increase in expenditure (2%).

As regards current income, tax revenue reduced its rate of growth from nearly 15% in 1980 to only 5%. This occurred in consequence of the smaller revenue (5% lower than in 1980) from taxes on foreign trade, which represent more than one-third of tax income and were affected by the contraction of imports. In particular, revenue from import duties decreased by more than 19%, a drop which was not offset by the simultaneous 48% rise in revenue from export taxes. In addition, the growth rate of direct taxes fell drastically from 36% to 3%, affected by a decline of nearly 32

⁶Including savings and loan associations, private finance companies and mortgage banks.

million pesos in taxes paid by the State mining company. Taxes on transactions involving goods and services, however, increased considerably (26% in 1981 and 14% in 1980) as a result of the additional 40 million pesos collected in taxes on fuels.

Non-tax revenue assumed some importance in 1979 with the purchase of the Pueblo Viejo gold and silver mine by the State, but this revenue, which had multiplied six-fold in the two years 1979-1980, rose by under 3% in 1981, mainly owing to the drop in the prices of those metals on the world market, since in terms of volume their production and export grew at higher rates than in the preceding year.

As regards government spending, current expenditure grew at a slower pace, with the increase in wages amounting this time to only 7% (after having risen substantially in 1979 and 1980), while other current expenditure expanded at a rate of 5%.

The policy of containing public spending had a particularly marked effect on capital expenditure, which went down for the second consecutive year (-5% in 1980 and -8% in 1981). As distinct from what occurred in 1980, however, real investment and capital transfers, which had increased that year, fell by 6% and 17% respectively in 1981. In contrast, amortization payments on the debt rose by 32%, after being reduced to half in the previous year.

Considerable efforts were made in the course of the year to improve the collection of taxes. For this purpose, a data-processing centre and a national register of taxpayers were established. Other projects, such as the introduction of the value added tax and another tax on urban real estate, had not yet been approved by the Legislature by the end of the year.

In spite of the financial difficulties faced during 1981 and the fall in real investment and capital transfers, efforts were made to press on as far as possible with the three-year investment programme aimed especially at supporting agricultural, energy, and transport and communications projects, as well as others of a social character.

Table 15

DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
1. Current income	578	674	869	908	16.5	29.0	4.5
Tax revenue	552	623	714	749	12.8	14.6	5.0
Direct	129	151	204	210	16.7	35.6	2.7
Indirect	144	166	189	238	15.3	13.9	25.5
On foreign trade	251	276	287	272	9.7	4.1	-5.4
Other	28	30	34	29	7.1	13.3	-14.7
Non-tax revenue	26	51	155	159	93.5	204.9	2.6
2. Current expenditure	443	649	729	776	46.4	12.4	6.4
Wages and salaries	216	312	376	404	44.4	20.5	7.4
Other expenditure	227	337	353	372	48.5	4.8	5.4
3. Saving on current account (1 - 2)	135	25	140	132	-81.5	460.0	-5.7
4. Capital expenditure	232	356	337	309	53.1	-5.2	-8.2
Real investment	155	97	128	121	-37.6	33.0	-5.7
Debt amortization payments	17	25	13	17	46.8	-48.2	31.5
Capital transfers	53	166	193	160	214.2	16.0	-17.2
Other expenditure	7	68	3	11			
5. Total expenditure (2 + 4)	675	1 005	1 066	1 085	48.9	6.1	1.8
6. Fiscal deficit (1 - 5)	-97	-331	-197	-177	241.2	-40.5	-10.2
7. Financing of deficit							
Domestic	50	104	92	101	108.0	-11.5	9.8
External	49	227	105	76	383.0	-53.7	-27.6

Source: ECLA, on the basis of data supplied by the Ministry of Finance and the Central Bank of the Dominican Republic.

^aPreliminary figures.

SURINAME

1. Recent economic trends: Introduction and summary

Since Independence in 1975, the real gross domestic product (GDP) at factor cost rose at an average annual rate of approximately 7% up to 1980, partly due to the continued Dutch aid — approximately 165 million guilders¹ granted to Suriname every year, from 1975 onwards. In 1981, however, the GDP had a negative real growth of 9.3% as a consequence of a marked fall in the mining, agricultural and manufacturing sectors, as well as a reduction in the services area (government, finance and banking and transport and communications) (see table 1).

Since Independence in 1975, some 75 000 migrants (net) have left the country, but total population increased at a rate of 1.5% during the period 1975-1981. In 1981, however, emigration was the lowest in many years, reflecting government policy of attracting expatriates back to the country. The new Government has shown increased interest in social issues and planning efforts are underway to increase the country's self-reliance.

With respect to the trade balance, the deficit reached US\$ 137 million in 1981 and reflects a third year of fast-growing imports (up by 13%) in contrast with slack exports (down by 8.0%).

Wage evolution in the public sector, which is the principal employer in the country (43% of the working force comes under the government budget), shows an increase in real wages during the last two years which has more than compensated for inflation. Inflation, on the other hand, has slowed from a peak 14.9% in the annual variation of the consumer price index during 1979, to 9% in 1981.

During the last few years, external indebtedness has increased from some US\$ 11 million in 1975-1977 to more than US\$ 28 million in the period 1978-1980. Efforts are being made to diversify the sources of foreign credit and in 1981 there was a reduction of the external debt to US\$ 22 million.

2. Trends in economic activity

(a) *Growth of the main sectors*

(i) *Agriculture.* The agricultural product (at factor cost in 1973 prices) fell slightly in 1980 and more sharply in 1981, reflecting smaller sugar and oil palm crops. Thus the contribution of the sector to total GDP fell from 8.8% in 1979 to 7.6% in 1981 (see table 2).

In recent years there has been a shifting of land use, with reductions in the areas planted with bananas, coffee, cocoa, peanuts and citrus and increases in the areas for palm oil and rice. The increase in total planted area is mainly explained by increased rice production on a large-scale, fully mechanized basis. Sugar production has decreased for several years due to falling yields, and there was also a notable decrease in coffee and cocoa production in 1981 (see tables 3 and 4). It is interesting to note that whereas in 1975, according to figures provided by the Planning Bureau and the Ministry of Agriculture, some 42% of the cultivated area was considered to be under large-scale farming, this type of farming represented almost 65% of the cultivated land in 1980.

According to the 1980 Census, this sector employs about 12% of the labour force and provides 17.7% of the jobs. According to official figures the sector offers 17 200 jobs but only 10 032

¹The rate of exchange in 1981 was 1.785 Suriname guilders per US dollar.

persons are normally employed on the land; the balance is covered in part by temporary migrants from the Caribbean region (mainly Guyana).²

Agriculture continues to suffer because of high labour costs and a scarcity of workers. The Government is trying to step up research in order to secure the necessary adjustments in technical aspects of production. The promotion of middle-sized farms and co-operatives has been carried out for some time. Enhanced agricultural extension services, storage and marketing facilities are seen as necessary in the case of oil crops (other than palm oil), fruits, root crops and vegetables: i.e., in production not geared primarily to the export market.

The livestock subsector has remained stagnant for some time, and only an increase in the production of goat and sheep meat was noted in the 1978-1979 period. (See again table 3).

Rice, shrimps, bananas and palm oil are the most important export products, representing some 15.5% of total exports. Exports of shrimps have gained momentum since 1973, and in 1977 their value exceeded rice exports. Since then, however, the catch has decreased by almost 15% annually and only price increases have kept the export value growing albeit very slowly. Forestry

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at factor cost (millions of Suriname guilders at 1973 prices)	571	627	729	812	801	820	743
Population (thousands)	363	365	369	374	380	388	397
Per capita gross domestic product (Suriname guilders at 1973 prices)	1 573	1 718	1 976	2 171	2 108	2 113	1 872
Growth rates							
B. Short-run economic indicators							
Gross domestic product (real growth)	-3.4	9.8	16.3	11.4	-1.3	2.3	-9.3
Per capita gross domestic product (real growth)	-3.5	9.2	15.0	9.9	-2.9	0.2	-11.4
Current value of exports of goods	2.8	9.6	14.0	18.8	8.0	15.8	-7.9
Current value of imports of goods	14.6	7.1	25.0	6.0	7.7	22.8	12.6
Consumer prices							
December-December	4.3	14.6	4.1	10.9	15.7	10.9	7.5
Variation between annual averages	8.6	9.8	9.7	8.8	14.9	14.1	9.0
Money	20.5	17.8	10.8	12.2	11.1	7.6	21.7
Wages and salaries ^b	-	0.6	31.7	-8.3	-1.0	10.9	19.8
Current income of government	47.7	-4.2	9.9	14.3	-2.5	11.8	9.7
Total expenditure of government ^c	40.3	21.7	21.4	22.3	3.9	11.7	23.7
Fiscal deficit/total expenditure	16.1	34.5	37.5	18.8	20.6	16.6	-
Millions of dollars							
C. External sector							
Trade balance	-30	9	-46	3	-3	-49	-137
Balance on current account	-48	-26	-81	-28	-37	-58	-119
Variation in net international reserves	-36	-25	18	-28	-31	-24	2
External debt	12	11	10	31	29	28	22

Source: CEPAL, on the basis of official data.

^aPreliminary figures.

^bAverage at end of December of each year.

^cFrom 1979 onwards this refers to current expenditure.

²In 1981, 69 662 persons immigrated from Guyana while 66 239 persons departed to Guyana through the principal ports.

Table 2

**SURINAME: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of Suriname guilders at 1973 prices			Percentage breakdown		Growth rates			
	1979	1980	1981	1975	1981	1975- 1978	1979	1980	1981 ^a
Gross domestic product	801	820	743	100.0	100.0	12.4	-1.3	2.3	-9.3
Goods	300	355	295	41.8	39.8	9.5	-4.4	18.4	-16.5
Agriculture and fisheries	71	70	56	9.9	7.6	6.1	4.7	-1.6	-18.8
Forestry and wood industry	11	14	20	1.6	2.7	25.8	-43.3	28.3	49.3
Mining and Bauxite	122	138	119	22.2	16.0	2.3	-10.1	12.8	-13.7
Manufacturing	67	99	55	6.2	7.4	18.0	15.9	48.0	-44.6
Construction	29	34	45	1.9	6.1	44.8	-13.2	18.3	32.1
Basic services	52	61	56	6.8	7.5	13.8	-8.3	15.9	-7.9
Gas, water and electricity	20	19	21	2.5	2.8	9.2	6.5	-5.1	11.8
Transport, storage and communications	32	42	35	4.3	4.7	16.3	-15.4	28.6	-17.0
Other services	449	404	392	51.4	52.7	14.5	1.9	-9.9	-3.1
Trade and commerce	123	123	119	17.1	16.0	9.7	-4.4	-0.3	-3.4
Financial services	53	70	41	4.2	5.5	26.9	6.9	33.0	-41.9
Household services	34	36	34	4.2	4.6	11.7	3.0	6.8	-5.8
Government	226	160	183	23.4	24.6	17.2	4.8	-29.0	14.2
Others	13	15	15	2.5	2.0	0.5	-5.6	11.0	1.3

Source: Data supplied to CEPAL by the Bureau of Statistics, Suriname.

^aEstimates by the National Planning Bureau.

has been developed for a number of years and better linkages between timber production (which grew by 7.7% in 1975-1980 and was the most dynamic area of the economy in 1981) and processing are being established. Particle board, plywood and other wood-derived products are coming into increasing production.

A new emphasis is placed on the processing of agricultural products in the present planning exercise. For this purpose, the Government envisages assuring producers that it will follow a pricing policy which balances costs of production with international prices. The following actions are part of the proposed sectoral programme for 1982-1986:³ (a) establishment of a national rice export institute; (b) establishment of a national vegetable export institute; (c) development of vegetable and fruit processing both for the domestic and export markets; (d) guaranteed prices for a number of selected products; (e) regulation of the shrimp and fish industry as regards the number of trawlers, license obligation, fuel compensation and catches. A levy on the export of shrimp is being studied; (f) extension of beef and pork processing and affiliation to a central wholesale agency that will be responsible for the purchase of animals for slaughter and the sale of meat; (g) measures to promote the further processing of products based on palm oil.

In 1981 an Agricultural Census was carried out, thus improving the information available for decision-makers and providing more insight into the structure of land tenancy and composition of production.

(ii) *Mining*. In 1981 the mining and bauxite sector accounted for 16% of the GDP (at factor cost) and 80% of exports, as well as 18% of government revenue, although in 1980 it employed only 6.5% of the work force. Due to this, the short- and medium-term outlook for the economy

³Ministry of Agriculture, Animal husbandry, Fishery and Forestry, "A Proposal for an Agricultural Sector Programme 1982-1986", Paramaribo, November 1981.

Table 3

SURINAME: INDICATORS OF AGRICULTURAL PRODUCTION

	1977	1978	1979	1980	Growth rates		
					1978	1979	1980
Index of agriculture							
Production (1970 = 100)							
Agricultural crops	149.0	117.0	127.5	152.7	-21.5	9.0	19.8
Livestock	117.7	113.6	118.9	121.2	-3.5	4.7	1.9
Fishing	130.6	191.1	176.2	147.5	46.3	-7.8	-16.3
Production of agricultural crops (tons)							
Paddy rice	202 866	223 946	235 772	257 629	10.4	5.3	9.3
Maize	230	273	264	290	18.7	-3.3	9.8
Sugar cane ^a	135 325	119 760	164 060	149 399	-11.5	36.9	-8.9
Oil palm	1 840	2 804	4 856	4 091	52.4	73.2	-15.8
Peanuts	338	250	286	210	-26.0	14.4	-26.6
Coconuts	5 500	5 644	5 649	5 479	2.6	0.1	-3.0
Bananas	31 508	33 063	31 214	39 226	4.9	-5.6	25.7
Plantains	1 700	2 850	3 280	1 918	67.6	15.1	-41.5
Citrus	67 500	30 434	35 360	42 282	-54.9	16.2	19.6
Root crops	2 200	2 742	3 287	3 578	24.6	19.9	8.9
Green vegetables	2 150	2 445	2 859	3 401	13.7	16.9	19.0
Coffee	90	25	59	45	-72.2	136.0	-23.7
Cocoa	61	47	83	65	-23.0	76.6	-21.7
Number of heads of livestock							
Cattle	46 884	61 648	70 967	76 787	31.5	15.1	7.4
Pigs	24 000	34 495	42 239	46 575	43.7	22.7	10.2
Goats and sheep	18 259	18 000	20 179	20 000	-1.4	12.1	-0.8
Other	4 200	8 888	8 294	9 360	111.6	-6.7	12.0
Poultry ^b	425	265	255	357	-37.6	-3.8	40.9
Poultry ^b	4 400	4 500	4 500	4 500	2.3	0.0	0.0
Number of animals slaughtered ^c							
Cattle	19 160	21 568	22 466	24 023	12.6	4.2	6.9
Pigs	6 986	7 929	8 002	8 069	13.5	0.9	0.8
Goats and sheep	11 759	12 981	13 710	14 939	10.4	5.6	8.9
Poultry ^b	415	658	754	1 015	58.6	14.6	34.6
Poultry ^b	3 900	4 000	4 180	4 200	2.6	4.5	0.4
Production ^d							
Beef	943	1 194	1 098	1 179	26.6	-8.0	7.3
Pork	811	948	1 069	1 135	16.9	12.8	6.1
Milk production (fresh milk delivered to central market) ^e	2 700	2 957	2 226	2 700	9.5	-24.7	21.3
Indicators of fishery production ^f							
Shrimps	189	338	321	728	79.1	-5.0	-28.9
Fish	3 400	2 885	2 618	2 127	-15.1	-9.3	-18.7
Crabs	26	23	30	31	-11.5	30.4	3.3
Total (shrimps, fish and crabs)	3 615	3 246	2 969	2 386	-10.2	-8.5	-19.6

Source: Agrarisch-Statistische gegevens, 1970-1979, Ministry of Agriculture, Livestock and Fisheries of Suriname, June 1981; Graadmeter van de Surinaamse Skonomie, (Basisgegevens over productie, arbeidsplassen, lonen en prijzen), Bureau of Statistics, Suriname; and updated figures for 1980 from the same sources.

^a1981 production of sugar cane amounted to 146 327 tons.

^bThousands.

^cExcludes poultry.

^dTons.

^eThousands of litres.

^f1981 production of fresh milk amounted to 4 400 000 litres.

^gLocal fishing activity.

and its external position are critically linked to this sector. In 1980-1981 the bauxite subsector was plagued by falls in both volume produced and in prices, and the index of mining production shows a decrease of 15% in 1981 following a 6% increase in 1980. The last few years have shown a relative tendency towards increased processing of bauxite: between 1978 and 1980 production of alumina and aluminium increased more rapidly than exports of bauxite, and in 1981 the decrease in exports of bauxite exceeded the fall in production of these derivatives (see table 5).

Bauxite mining started after the First World War when SURALCO (a subsidiary of the Aluminium Company of America - ALCOA) opened the first mine, at Moengo. Output was vastly expanded during the Second World War, when a second mine was opened at Paraman and a subsidiary of Shell of the Netherlands initiated exploitation of the Onverdacht deposits. By the mid-1950s production had reached 3.4 million tons (about a quarter of total world production), and it continued to increase to a peak 7.2 million tons in 1974. At the end of 1974 the Suriname Government took a similar action as the one taken by Jamaica, the other Caribbean producer of bauxite, and introduced a levy on production which amounted to 6% of the realized price of aluminium,⁴ but later, because of concern at the large production drop that had occurred since the introduction of the levy, the Government agreed in 1979 to lower it to about 3.1-3.3% of the international aluminium price.

The sector is still dominated by the two subsidiaries of transnational corporations. Processing of bauxite on a large scale began in the mid-1960s with the completion of a hydroelectric power plant at Afobakka and the construction of an aluminium smelter and alumina plant under a government joint venture agreement (the Brokopondo Agreement of 1958). By the early 1970s output of processed products had reached about 57 000 tons of aluminium, 1 300 million tons of alumina and 300 000 tons of calcined bauxite. About 10% of the bauxite processed is calcined and 90% goes for alumina production. Nearly 10% of the alumina is further processed into aluminium.

Table 4

**SURINAME: AGRICULTURAL AREA UNDER CULTIVATION
(PLANTED AREA)**

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Total cultivated area	60 989	66 471	70 841	77 619	82 355	9.0	6.6	9.6	6.1
Paddy rice	49 700	55 200	58 855	64 956	67 001	11.1	6.6	10.4	3.1
Maize	110	140	185	183	206	27.3	32.1	-1.1	12.6
Sugar cane	2 188	2 303	2 429	2 392	2 422	5.3	5.5	-1.5	1.3
Oil palm	1 880	2 025	2 372	2 557	2 831	7.7	17.1	7.8	10.7
Soy beans	45	38	37	43	46	-15.6	2.6	16.2	7.0
Peanuts	282	245	285	208	339	-13.1	16.3	-27.0	63.0
Coconuts	1 100	1 000	973	1 097	1 340	-9.1	-2.7	12.7	22.2
Bananas	1 739	1 694	1 683	1 625	1 941	-2.6	-0.6	-3.4	19.4
Plantains	256	216	272	284	601	-15.6	25.9	4.4	111.6
Citrus	2 000	1 894	1 899	1 933	2 163	-5.3	0.3	1.8	11.9
Root crops	400	452	525	567	706	13.0	16.2	8.0	24.5
Green vegetables	485	538	586	718	1 402	10.9	8.9	22.5	95.3
Coffee	360	209	199	152	344	-41.9	-4.8	-23.6	126.3
Cocoa	390	208	214	250	319	-46.7	2.9	16.8	27.6

Source: Data supplied to CEPAL by the Ministry of Finance.

^a Preliminary figures.

⁴ United States listed producer price for 99.5% ingots, at New York, assuming an average conversion factor of 4.1 tons. However, since the companies were allowed to credit income taxes paid against the gross levy and because of discounts in respect of deposits with higher production costs, the actual net levy amounted to 60-80% of the gross levy or about 4% of the realized price.

Despite occasional upsurges, since 1974 production has generally not recovered the peak level. Since the introduction of the bauxite levy coincided with a drop in world demand for aluminium that has continued under the present world recession, the companies (particularly those which are members of the International Bauxite Association (IBA)) have cut production in Suriname as well as in other countries.

Prior to the introduction of the levy, the sector contributed 15% of total government revenue, primarily in the form of income taxes. The levy's correlation to the world market price for aluminium has been a factor influencing the rate of growth of production and the Government's revenue. Thus, in 1975 net levy payments amounted to 126.2 million guilders or about 40% of current government revenue, and during 1976 and 1977 net levy receipts still remained at 65-70 million guilders as aluminium price increases offset declines in production, while further increases in price in 1978 caused receipts to rise to 103.6 million guilders, representing nearly a quarter of current revenue. Since then, however, stagnating production and a decline in 1981 have brought the contribution down to about one-fifth of total revenue.

The relatively high costs of the industry in Suriname have made production less competitive than that of other countries. The potential for an expansion of bauxite sector output lies in the exploitation of the Bakhuis deposits in Western Suriname. In order to seek a viable solution to the development of these deposits the Government formed a commission with the mining companies, and a report issued in 1980 concluded that two main alternatives were considered feasible: (a) the establishment of a small bauxite mine in Western Suriname (430 000 tons) and the establishment of a new calcinated refractory bauxite plant to supplement present production facilities in Eastern Suriname. This would result in doubling total calcined bauxite output; or (b) the establishment of a larger bauxite mine (2 million tons per year) and a calcinated refractory plant as well as the expansion of the existing alumina plant by about 50% to process about 1.5 million tons of Western Suriname bauxite. The construction of a new alumina plant in Western Suriname, as envisaged in the Government's current Development Plan, was discarded in 1980 due to the higher costs of building a new plant vis-à-vis expanding existing facilities. Energy costs and the need to build new hydroelectric plants to serve a much larger processing plant further increase these costs.

Table 5
SURINAME: INDICATOR OF MINING PRODUCTION

	1977	1978	1979	1980	1981 ^a	Growth rates			
						1978	1979	1980	1981 ^a
Index of mining production (1970 = 100)	98.0	106.0	98.1	104.0	88.0	8.2	-7.4	6.0	-15.4
Production ^b									
Bauxite	4 856	5 025	4 769	4 093	4 125	3.5	-5.1	2.6	-15.7
Alumina	1 215	1 316	1 312	1 444	1 248	8.3	-0.3	10.0	-13.6
Aluminium	50	59	53	55	41	18.0	-10.2	3.7	-25.5
Export volume ^b									
Bauxite	2 026	2 284	1 737	1 767	1 260	3.5	-23.9	1.4	-28.2
Alumina	1 059	1 124	1 185	1 329	1 165	6.1	5.4	12.1	-12.3
Aluminium	58	55	64	46	31.6	-5.2	16.3	-28.1	-31.3
Export value ^c									
Bauxite	102	111	117	131	96	8.9	5.4	11.9	-26.7
Alumina	260	297	359	499	449	14.2	20.8	38.9	-10.0
Aluminium	96	91	134	116	87	-5.2	47.2	-13.4	-25.0

Source: Bureau of Statistics, Suriname, and data supplied to CEPAL by the Planning Bureau.

^a Preliminary figures.

^b Thousands of tons.

^c Millions of Suriname guilders.

Table 6

**SURINAME: GROSS DOMESTIC CONSUMPTION OF ENERGY
AND OIL PRODUCTS, 1975-1981**

(Thousands of barrels of oil equivalent)

	1975	1976	1977	1978	1979	1980	1981 ^a
Aviation gasoline	10	12	19	27	27	9	25
Aviation kerosene	113	92	102	106	124	134	120
Premium gasoline	143	156	211	243	261	257	280
Regular gasoline	110	92	106	104	106	97	106
Kerosene	32	9	27	26	22	19	15
Diesel oil	1 094	1 056	1 275	1 269	1 128	1 200	1 280
Fuel oil	2 728	2 639	2 106	3 358	3 190	3 415	3 400
LPG	80	98	137	143	182	210	230
Lubricating oil	36	36	39	44	42	40	44
Grease	2	2	2	-	-	-	-
Others	2	2	2	-	-	11	-
Subtotal	4 318	4 175	3 961	5 251	4 976	5 392	5 355
Hydropower	1 210	1 570	1 760	1 370	1 533	1 606	1 500
Total	5 528	5 745	5 721	6 621	6 509	6 998	6 855

Source: Energy Planning Unit, Planning Bureau.

^aPreliminary figures.

(iii) *Energy.* The energy production sector, along with gas, water and other public utilities, has been expanding at an average annual rate of almost 6% since 1975. Approximately 90% of Suriname's present electric capacity belongs to the two private aluminium companies. Roughly half of this capacity is provided by the 189 MW Afobakka hydroelectric plant constructed 15 years ago. Under the concession agreement the company must deliver a portion of the plants output each year to the Government, which in turn sells it to the electricity company (Energie Bedrijven Surinam - EBS). This electricity, plus diesel-generated energy, services the Paramaribo area, where roughly half the country's population lives.

Peak demand in Paramaribo has been estimated at 39 MW (excluding that of the industrial self-producers). As much as 41% of this demand can be covered by hydroelectricity, the remainder being supplied by a 32 MW diesel plant. In 1975-1981, 22% of the gross domestic consumption of energy was supplied by the Afobakka plant—most of it for aluminium production (see table 6). Other primary sources of energy (firewood, animal, plant and charcoal) have remained stagnant over the last few years. Energy consumption has been growing at the rate of almost 5% and since 1975 one of the country's sectoral development objectives has been to cover all of this new demand with hydropower and, as far as possible, to cover also the needs now being filled by industrial captive thermal generation. This objective was given greater urgency by the increases in the price of crude petroleum: while the volume of oil imports grew by 4.2% per annum in the period 1975-1980, their cost increased by 24% per annum. A seven-man Energy Commission was appointed in 1979, and the new Government of Suriname set up an interdisciplinary Energy Group which has endorsed the Commission's recommendations. The Multi-annual Development Plan, which was re-examined by the new Government in 1980 and is now being further analysed, included two big hydroelectric projects in Western Suriname.

The uncertainty surrounding the extent of future mining activity in the Bakhuis region has inclined the Government to develop hydropower to satisfy the projected industrial demand in a first phase. Eventual further exploitation of the country's hydroelectric potential for the production of aluminium is a second objective for the sector. Even if it is decided not to expand the present aluminium production capacity in the Eastern region, the possibility still exists of substituting fuel now used for steam generation. In addition, it might be possible to sell electricity to Guyana while

that country is developing its hydropower potential. The transmission line required could still serve to interconnect the two countries once Guyana begins its own hydropower generation.

(iv) *Manufacturing.* In 1981 the industrial sector accounted for 7.4% of the GDP at factor cost (1973 prices): a severe setback compared with 1980, when it provided 12% of the GDP. This sector, which is mainly oriented towards the internal market, had been one of the more dynamic areas of the economy in the period 1975-1980, along with construction and financial services, but its employment-generating capacity has been very limited: while 10.7% of the work force was in this sector in 1975, only 8.4% worked in manufacturing in 1980.

In the period 1974-1980 it was the area of agro-products and processed foods that was the most dynamic, the leading activities being butter production followed by wheat flour production, both of which are heavily dependent on imported inputs, as are cattle fodder and animal feeds, soft drinks, cigarettes and shoes. Sugar production fell in this period, recovering somewhat in 1981 but remaining well below the 1974 production level. The same trend was seen in alcohol and molasses production, which is also dependent on the historically declining cane production yields (see table 7).

Production based on local raw materials, such as processed wood products, cardboard boxes and crude palm oil, have not gained momentum in recent years. Moreover, the setback experienced in 1981 by manufacturing, coupled with the smaller mining activity, adversely affected commerce and services too, so that transport and financial services also declined.

Table 7
SURINAME: INDICATORS OF MANUFACTURING PRODUCTION

	1977	1978	1979	1980	1981 ^a	Growth rates		
						1979	1980	1981 ^a
Butter ^b	264	196	147	142	168	-24.7	-3.8	18.7
Wheat flour ^b	8 834	9 071	10 164	9 249	9 998	12.1	-9.0	8.1
Margarine ^b	576	709	814	609	743	14.8	-25.0	22.0
Peanut butter ^b	155	186	318	198	66	71.3	-37.7	-66.8
Sugar ^b	7 594	6 122	10 218	7 122	7 851	66.9	-30.5	10.2
Yoghurt ^c	376	277	221	191	181	-20.2	-13.6	-5.2
Milk ^c	8 091	8 592	7 901	8 107	8 753	-8.0	2.0	8.0
Alcohol ^c	1 714	1 656	1 539	1 244	767	-7.1	-18.6	-38.3
Soft drinks ^c	34 071	35 643	37 005	36 095	42 328	3.8	-2.5	17.3
Cigarettes ^d	354	353	361	379	402	2.3	5.3	6.1
Cigars ^e	174	161	167	117	133	3.7	-30.1	13.7
Other								
Cement ^b	45 000	57 000	69 000	42 545	71 408	21.1	-38.2	67.8
Particle board ^f	6 502	6 411	6 664	5 964	6 200	3.9	-10.5	4.0
Plywood ^f	14 726	19 031	20 019	18 588	19 400	5.2	-7.1	4.4
Shoes ^g	276	354	321	364	357	9.3	13.4	-1.9
Cardboard boxes ^e	2 242	2 404	2 633	1 107	...	9.5	-58.0	...
Crude palm oil ^b	1 840	2 804	4 429	4 090	...	58.0	-7.7	...
Molasses ^c	4 144	2 549	3 384	3 104	2 419	32.8	-8.0	-22.1
Cattle fodder and animal feeds ^b	35 057	43 017	48 466	42 717	49 790	12.7	-11.9	16.5

Source: Bureau of Statistics and data supplied to CEPAL.

^a Preliminary figures.

^b Tons.

^c Thousands of litres.

^d Millions.

^e Thousands.

^f Cubic meters.

^g Pairs.

Table 8

**SURINAME: AVAILABLE JOBS AND ECONOMICALLY ACTIVE
(EMPLOYED) POPULATION IN 1980**

Sector	Available jobs	Economically active population	Difference ^a
Agriculture	17 200	10 032	7 168
Mining	6 152	5 478	674
Manufacturing	9 658	7 049	2 609
Utilities	1 270	1 248	22
Construction	2 714	3 823	-1 109
Commerce	14 872	11 360	3 512
Transport	2 936	2 899	37
Banking	2 293	1 964	329
Government	37 964	36 153	1 811
Other services	2 966	336	2 630
(including non-responses)		3 119	3 119
Total	97 925	83 461	14 464

Source: Volkstelling, 1980, (Census, 1980), Bureau of the Census; Planning Bureau; and Ministry of Finance.

^a A positive figure indicates that the posts exceed the number of persons economically active in the sector; a negative figure indicates that the number of economically active persons is greater than the available posts.

(v) *Public sector activities.* Government services grew at a steady pace of 3.7% annually from 1975 to 1980, due in part to the continued development aid from the Netherlands, together with the availability of savings on the current account during the 1978-1980 period. Revenue from direct and indirect taxes grew at a rate of 18% in the 1975-1980 period. Thus, the Government has remained the largest employer in the economy, offering about 40% of the jobs in the country, and in years of poor performance like 1981 it acts as a buffer for the whole economy.

In 1981 the Government faced a deficit on the current account which was mainly due to a 71% increase in purchases of goods and services and a 19% increase in wages and salaries. Subsidies and transfers diminished during the year, contrary to the 1975-1980 trend of dramatic increases in government expenditures (see table 16 below).

Capital account or development activities continued, with the major construction efforts and public health initiatives being financed by Netherlands aid. The recurrent problem of the country's capacity to absorb these investments has affected the pace of project implementation.

(b) *Developments in employment*

The lack of manpower at most skill levels and a shortage of technical and managerial staff are probably the most important constraints which Suriname now faces. Table 8 shows, on the basis of data from the 1980 Population Census, how the total number of work posts in most sectors outnumbers the economically active population. This should not be confused, however, with absence of unemployment.

In past years, emigration has been particularly heavy among the educated and the skilled, thus presenting the country with the above-mentioned shortage. According to the same census figures (see table 9), however, there are nevertheless a significant number of persons looking for work — some 17% with respect to the economically active population. They are mainly in very young age categories — 29.6% of those looking for work are between the ages of 12 and 19, while those looking for work in the 12-24 age group represent 11% of the work force in the 12-59 age group, and most of them have a low level of administrative and technical skills.

3. The external sector

In 1981, for the first time in many years, Suriname faced a deficit on its merchandise trade, reflecting the faster growth of imports than exports for the third consecutive year. Due to the fall in bauxite sales, exports went down by 7.9% (see table 10). In contrast, before 1980 the surplus on the merchandise trade partly offset the deficits on services, which had not reached such a high level since 1977.

The fast growth of imports during 1980 and 1981 must reflect the rise in consumer goods purchases, which in 1975-1979 represented more than 20% of total imports. The latest year for which figures are available (1979) shows that purchases of capital goods represent only 14.4% while in the case of intermediate goods the price increases of fuels and oil upset their composition. Thus, in 1975, 35% of intermediate goods imports were fuels and more than 60% were raw materials, while in 1979, 57% were fuels and 36% were raw materials.

The direction of trade has not varied appreciably over the last few years. The main markets for both imports and exports continue to be the United States and the Netherlands (supplying 44% of total imports in 1979 and buying 48% of total exports). Nevertheless, there has been a slight decrease in these traditional markets' importance in favour of new markets.⁵ In the case of exports, sales to Japan —mainly shrimps— have increased from 2% to 6.8% of total sales, and business with European countries which are not members of the EEC has increased from 1% to 3.6% of total exports. Imports from other Caribbean countries (mainly in the CARICOM area) have increased from 20% to 24% of total purchases made between 1975 and 1979.

Deficits have been recorded in respect of the services trade and factor payments for several years. In 1981 total services costs were slightly under the 1980 figure and 1981 shows a positive balance in net payments of profits and interest on foreign capital for the first time since 1975, with interest received offsetting the remittances of profits and payments of interest (see table 11).

Suriname is a net receiver of unrequited private transfers from migrants now living abroad, and although these represent only 2-3% of total current account receipts, they are important sources of income for a large number of low-income families. The current account registered a deficit of US\$ 119 million in 1981: more than double the previous year's result. However, the

Table 9

SURINAME: ECONOMICALLY ACTIVE POPULATION AND PERSONS LOOKING FOR WORK, BY AGE GROUPS IN 1980

Economically active population		Looking for work	
Age group	Number of persons	Age group	Number of persons
12 - 14	140	12 - 19	4 212
15 - 59	78 694	20 - 24	4 467
60 - 64	1 911	25 - 29	1 749
65 - 69	1 050	30 - 34	985
70 and older	834	35 - 39	734
Non-response	832	40 - 44	626
Total	83 461	45 - 49	486
		50 and older	961
		Non-response	9
		Total	14 229

Source: Bureau of the Census (Bureau Vijfde Algemene Volkstelling), quoted by the Ministry of Finance.

⁵In the case of exports, sales to the EEC and the United States represented 73% of the total in 1975, while in 1979 they represented 59%.

Table 10

SURINAME: EXPORTS OF GOODS

	Millions of dollar				Percentage breakdown		Growth rates			
	1978	1979	1980	1981 ^a	1970	1980 ^a	1978	1979	1980	1981 ^a
Total	394	444	514	474	100.0	100.0	13.7	12.9	15.8	-7.9
Bauxite and processing	309	341	415	354	86.9	80.7	11.5	10.5	21.6	-14.7
Bauxite	72	66	74	54	25.7	14.4	9.9	-9.0	12.2	-26.9
Alumina	176	201	279	252	46.3	54.3	15.5	14.1	39.2	-10.0
Aluminium	61	74	62	48	14.9	12.1	2.4	23.1	-17.2	-21.3
Agriculture and fishing	52	73	79	...	4.1	15.4	5.9	40.1	8.9	...
Rice	27	38	42	...	2.7	8.2	60.0	41.7	10.7	...
Bananas/Plantains	4	4	6	7	1.4	1.2	16.7	4.3	43.8	14.3
Shrimps and fish	21 ^b	31	31	...	-	6.0	-26.7	44.7	2.0	...
Wood and wood processing	7	11	12	10	2.7	2.3	11.8	57.7	8.2	-11.0
Others	26	19	8	...	6.3	1.6	84.7	-15.6	-56.7	...

Source: Bureau of Statistics, Central Bank of Suriname.

^aPreliminary figures.

^bShrimps only.

capital account movements, mainly the continued Netherlands aid, prevented a negative balance on the total account. In 1981, there was additionally a significant amount of net direct capital investment, representing about 25% of the capital account, and as a result the global balances showed a surplus of US\$ 9 million.

The unit value of exports increased by 10.4% during the year, while that of imports rose by 6.2%. Thus, the terms of trade index improved from 93.7 in 1980 to 99.5 in 1981 (1970=100). However, since the export volume decreased drastically by 16.5%, the purchasing power of exports of goods index declined to 105.8 as compared with 123.6 in the previous year (see table 12).

Suriname's external debt situation is extremely favourable, as is reflected by a positive balance in the global account since 1978. At the time of Independence in 1975, the Netherlands cancelled all outstanding debts, and since then public investment has been largely financed by Netherlands Grant Aid.⁶

4. Prices and wages

In 1981 the rate of inflation, as measured by the retail price index, fell for the second year in succession and amounted to 9%, which was relatively low compared to the two-digit figures registered in the years 1979 and 1980 (see table 13). The effect of receding world prices—especially those of basic foods that are imported—served more than strict controls to restrain the upward variation of the index. In the case of food and beverages, the rise was only 3.5% in 1981, the biggest increases being in the prices of clothing and potatoes (19.2%), followed by housing and furnishing costs.

Wage and salary increases, especially in the case of the public sector, which is the principal employer, more than offset inflation in 1981 and compensated for the loss in real wages experienced in 1979 (see table 14).

⁶The Netherlands Aid Agreement of 1975 provided for about Nfl. 3.1 billion in grants over the period 1976-1985/1990, of which about Nfl. 2.5 billion remained undisbursed at the end of 1980.

Table 11

SURINAME: BALANCE OF PAYMENTS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981
Exports of goods and services	329	361	397	474	515	614	567
Goods FOB	277	304	346	411	444	514	474
Services ^a	52	57	51	63	70	99	93
Transport and insurance	7	7	8	7	10	45	38
Travel	8	11	14	18	21	19	17
Imports of goods and services	359	351	443	472	517	662	704
Goods FOB	242	259	324	344	370	454	511
Services ^a	117	92	119	128	147	208	193
Transport and insurance	41	32	57	63	72	126	119
Travel	34	16	19	23	32	34	29
Merchandise balance	35	45	22	68	74	60	-37
Trade balance	-30	9	-46	3	-3	-49	-137
Profits and interest	-12	-35	-37	-35	-41	-16	14
Profits	-19	-42	-43	-41	-54	-39	-20
Interest received	10	10	7	8	13	25	35
Interest paid	-2	-3	-1	-1	-1	-2	-1
Unrequited private transfer payments	-6	0	2	4	7	6	4
Balance on current account	-48	-26	-81	-28	-37	-58	-119
Unrequited official transfer payments	179	89	78	55	81	74	95
Long-term capital	-97	-55	-13	15	-16	10	33
Direct investment	0	0	-13	-7	-15	10	35
Portfolio investment	0	0	0	0	0	0	-1
Other long-term capital	-97	-55	0	22	-1	0	0
Official sector ^b	-136	-3	-1	21	-2	-2	-2
Loans received	14	0	0	22	0	0	0
Amortization payments	-150	-3	-1	-1	-2	-2	-1
Commercial banks ^b	0	0	0	0	0	0	0
Loans received	0	0	0	0	0	0	0
Amortization payments	0	0	0	0	0	0	0
Other sectors ^b	39	-51	1	1	1	2	2
Loans received	39	0	1	1	1	2	2
Amortization payments	0	-51	0	0	0	0	0
Basic balance	34	9	-16	42	27	26	9
Short-term capital	3	2	-1	-1	0	-1	14
Official sector	2	-2	-1	0	1	-1	3
Commercial banks	1	4	0	-2	1	-7	10
Other sectors	0	0	0	2	-2	7	1
Errors and omissions (net)	10	16	0	0	0	1	-14
Balance on capital account	95	53	63	69	64	84	128
Global balance ^c	47	27	-18	41	27	25	9
Total variation in reserves ^c (- sign indicates an increase)	-36	-25	18	-28	-31	-24	2
Monetary gold	0	0	0	18	0	0	0
Special Drawing Rights	0	0	0	0	-3	1	-4
IMF reserve position	0	0	0	-6	0	-4	1
Foreign exchange assets	-24	-19	16	-32	-34	-17	-15
Other assets	-12	-6	1	-7	6	-4	20
Use made of IMF credit	0	0	0	0	0	0	0

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook* (magnetic tape, March 1982); 1981: CEPAL, on the basis of official data.

^a Services also include other official and private transactions, but not profits and interest.

^b In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^c The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Table 12

SURINAME: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980	1981
Growth rates							
Exports of goods FOB							
Value	2.8	9.6	14.0	18.8	8.0	15.8	-7.9
Volume	-12.0	-2.4	-0.7	7.0	1.6	-3.3	-16.5
Unit value	16.8	12.3	14.7	11.0	6.3	19.7	10.4
Imports of goods FOB							
Value	14.6	7.1	25.0	6.0	7.7	22.8	12.6
Volume	-1.4	5.7	13.8	-8.8	-11.8	0.6	8.4
Unit value	16.2	1.3	9.9	16.3	22.0	22.0	3.8
Terms of trade FOB/CIF	1.0	10.5	4.7	-3.5	-11.9	-0.2	6.2
Indexes (1970 = 100)							
Terms of trade FOB/CIF	95.5	105.5	110.4	106.5	93.8	93.7	99.5
Purchasing power of exports of goods	117.0	122.4	127.3	134.0	123.8	123.6	105.8
Purchasing power of exports of goods and services	120.1	125.7	126.3	133.7	124.1	127.6	109.4

Source: CEPAL, on the basis of official data.

Table 13

SURINAME: EVOLUTION OF DOMESTIC PRICES

	Weighting	1975	1976	1977	1978	1979	1980	1981
Variation December to December								
Consumer price index - all items		9.4	14.6	4.1	10.9	15.7	10.9	7.5
Variation between annual averages								
Consumer price index - all items	100.0	8.9	9.8	9.9	8.8	14.9	14.1	9.0
Food and beverages	40.0	7.4	9.8	7.3	4.9	12.8	(9.3)	3.5
Housing and furnishings	23.6	8.8	6.7	7.5	17.0	12.5	16.2	10.0
Clothing and footwear	11.0	12.9	18.0	21.0	14.8	24.4	9.5	19.2
Other items	25.4	8.3	10.2	10.5	6.3	15.5	18.0	11.7

Source: Prijsindexcijfers van de Gezinsconsumptie (Consumer Price Index), Bureau of Statistics.

Table 14

SURINAME: EVOLUTION OF WAGES AND SALARIES
IN THE PUBLIC SECTOR

(Index 1975 = 100)

	1978	1979	1980	1981	Growth rates			
					1978	1979	1980	1981
Wages and salaries								
Nominal	121.4	128.8	141.5	160.0	-9.3	6.1	9.9	13.0
Real	92.8	85.7	82.6	85.6	-16.6	-7.7	-3.6	3.6

Source: Data supplied to CEPAL by the Ministry of Finance.

Table 15
SURINAME: MONETARY BALANCE

	Millions of Suriname guilders				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Money	246	274	294	358	11.1	7.6	21.7
Currency outside banks	145	157	178	197	7.8	13.7	10.8
Demand deposits	101	117	116	161	15.9	-0.6	38.3
Factors of expansion	712	806	889	1 059	13.1	10.4	19.1
Foreign assets (net) ^b	282	334	398	427	18.4	19.3	7.2
Domestic credit ^c	430	472	491	632	9.6	4.1	28.7
Claims on government	57	36	15	70	-54.4	-59.5	376.9
Claims on the private sector	373	436	476	562	16.9	9.4	18.0
Factors of absorption	466	532	595	701	14.1	11.8	17.8
Quasi-money	37	39	50	68	5.7	28.4	37.1
Long-term deposits and foreign borrowing	364	421	455	526	15.7	8.0	15.5
Capital and reserves	71	80	94	108	12.6	17.5	14.2
Other items (net)	65	72	90	107	10.2	25.2	18.2

Source: Central Bank of Suriname.

^a Preliminary figures.

^b Includes short-term claims on the Government and government investment on domestic capital market minus short-term liabilities due to development co-operation.

^c Includes short-term claims on the Government (net), claims on the private sector and investment on domestic capital market, minus short-term liabilities due to development co-operation.

Table 16
SURINAME: GOVERNMENT INCOME AND EXPENDITURE

	Millions of Suriname guilders				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Current income	441	430	480	527	31.4	-2.5	11.8	9.7
Direct taxes	113	128	130	135	27.6	13.8	8.7	-3.2
Indirect taxes	158	175	176	199	7.6	10.7	0.8	12.8
Bauxite levy (net)	103	85	92	96	59.9	-17.5	8.8	4.1
Profits from central bank	16	20	28	30	-6.8	21.2	42.0	5.6
Other non-tax revenue	50	22	44	67	178.9	-56.7	2.3	52.9
Current expenditure	397	413	460	570	10.6	3.9	11.7	23.7
Wages and salaries	234	245	258	306	15.6	4.5	5.3	18.8
Subsidies and transfers	45	60	107	102	13.5	33.3	78.3	-5.0
Interest	3	5	6	9	80.0	66.0	24.4	58.9
Goods and services	115	103	89	153	12.1	-10.4	-13.3	70.9
Savings on current account	44	17	20	-43	...	-60.5	13.9	-316.8
Capital expenditure	146	129	116	...	-18.1	-11.4	-10.0	...
Total expenditure	543	541	576	...	1.1	-1.8	6.5	...
Fiscal deficit	-102	-111	-96	...	-49.3	9.0	-13.8	...

Source: Data supplied to CEPAL by the Ministry of Finance.

^a Preliminary figures.

In the private sector, wage costs per employee are estimated to have nearly tripled over the period 1973-1980, and in a number of sectors, particularly plantation agriculture, construction and domestic services, employers have resorted to hiring foreign workers (particularly from Guyana, as noted earlier) in order to overcome shortages of unskilled labour.

5. Monetary and fiscal policy

After the restrictive monetary policy followed in 1980 (money increased by only 7.6% during the year and the factors of expansion were mainly foreign assets, while domestic credit expanded slowly and, in contrast, savings and time deposits grew by more than 28%, withdrawing about 50 million Suriname guilders from circulation), the money supply expanded at the rate of 22% in 1981. Domestic credit grew by 28.7%, while the growth of quasi-money (savings and time deposits) was 37% (see table 15).

Commercial bank credit went primarily to trading and commercial activities (including building loans). Among the productive sectors (which received less than 40% of such credit), the principal recipients were agricultural and mining activities. Resources available for construction and forestry actually decreased in the year, reflecting the slackening of activity in these areas.

The international reserves situation remains favourable, with the foreign exchange available in the Central Bank at the end of 1981 representing more than 4 months of imports at this year's level.

Since Independence, the fiscal deficits have amounted to a total of approximately 660 million Suriname guilders between 1976 and 1980 (see table 16). These deficits have been financed mainly through Netherlands aid totalling 672 million guilders. In 1981 grants received amounted to 169 million guilders. The present financing plan for the public investment programme during 1981-1987 envisages the disbursement of all the remaining Netherlands grants, plus total external borrowing requirements of about 970 million guilders. Of these, about two-thirds would be on commercial terms, to be contracted largely in the latter part of the period (1984-1986), after the concessional contributions have been fully disbursed.

The prospect of an increasing resource gap and a sharp rise in debt service levels beyond the availability of concessional aid under present conditions should be borne in mind. The possibility that this may happen under the present circumstances of reduced bauxite output and rising energy costs underscores the need to raise the long-term overall export growth rate; to take early steps to increase rapidly domestic savings to avoid undue reliance on external funds, which will probably be on harder terms than at present; and, in the medium-term, to replace fuel-based energy by hydropower.

TRINIDAD AND TOBAGO

1. Recent economic trends: Introduction and summary

Because of the pervasive influence of petroleum on the Trinidadian economy, the energy crisis and the subsequent oil price hikes to which it gave rise accounted for Trinidad's vigorous growth throughout the 1970s. The petroleum sector alone directly accounts for 36% of the gross domestic product (GDP) in Trinidad. Moreover, its indirect impact —especially via government revenues and expenditure— is likewise impressive, for the bulk of government revenues are made up of taxes on petroleum or petroleum-dependent activities, and government revenues in turn are equal to 40% of GDP. Hence, the evolution of the Trinidadian economy is largely governed by the growth of petroleum output and/or prices.

The substantial economic growth experienced over the last few years, influenced mainly by the sharp increase in oil prices in 1979, slowed down considerably in 1981. Preliminary estimates reveal that the gross domestic product, at current prices, grew by only 11% in 1981 after increases of 24% and 21% in 1980 and 1979 respectively. Real growth of output was thus of the order of minus 2 1/2% once the 14% increase in the general price level is taken into account (see table 1). Yet, because of higher petroleum prices the terms of trade were nevertheless fairly favourable to Trinidad and Tobago (of the order of 5%), so that real income may not have declined significantly between 1980 and 1981.

The reduction in the physical output of petroleum during the year was due to various factors, including lower world demand for crude and refined petroleum and the closure of some wells in favour of gas conservation. These contributed to the 4% fall in earnings accruing to the petroleum sector, but increased earnings in the non-oil sectors, especially construction and services, more than compensated for this decline. Thus, what little growth in output did take place in 1981 was due to the spending of petroleum-derived income in non-petroleum sectors of the economy.

Inflation abated somewhat in 1981, decelerating to 14%, due in large part to the lower rate of imported inflation resulting from the revaluation of the US dollar, and to a somewhat less expansive monetary policy.

Thanks to the strength of petroleum revenues, both the fiscal and foreign reserve situation of the country was quite solid. Indeed, the surplus on the balance of payments in 1981 alone was sufficiently large to cover all of Trinidad's outstanding foreign debt.

2. Trends in economic activity

(i) *Agriculture.* No single sector of the economy has been so severely hurt by the energy crisis as agriculture. From the onset of the oil price hike in 1972 through 1980, agricultural output declined by close to 50%, notwithstanding the resources the government increasingly dedicated to this sector (these almost trebled in real terms between 1975 and 1980, and in the latter year government resources to agriculture almost equalled the value of the whole of agricultural production). The oil bonanza has of course made food imports relatively cheap, given the combination of a fixed exchange rate since 1975 and domestic inflation substantially above that of the country's major trade partners. Then, too, the attraction of relatively high-paying jobs for easier work in the city has accelerated urban migration and made suitable agricultural labour hard to find, pressuring agricultural wage costs upward. Had agricultural productivity increased

substantially, the problem would have been manageable. Instead, however, agricultural productivity has been stagnant. Hence agriculture's role in the economy has been eroding sharply, falling to well under 3% of GDP in 1981 (see table 2).

In the face of such past trends, agricultural output in 1981—mixed and spotty as was its performance—showed something of a reversal. The current value of agricultural production grew almost 23%, well above the -2%, 4% and 2% growth in 1978, 1979 and 1980 respectively. To be sure, this growth was low, if not negative, in real terms (it was anywhere between -6% and +5% according to the deflator used).¹ Be that as it may, it represented a reversal of the sharp declines the sector had previously been experiencing, with real output falling by close to 10% in each of the last three years (1977-1980)

Table 1

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators					
Gross domestic product at factor costs (millions of dollars at 1970 prices)	990	1 069	1 126	1 208	1 175
Population (thousands of inhabitants)	1.1	1.1	1.1	1.2	1.2
Per capita gross domestic product (dollars at 1970 prices)	943	1 002	1 040	1 100	1 050
Growth rates					
B. Short-run economic indicators					
Gross domestic product	10.4	8.0	5.3	7.3	-2.7
Per capita gross domestic product	8.8	6.3	4.0	5.8	-4.2
Terms of trade	0.1	-5.9	20.8	35.6	4.7
Current value of exports of goods and services	11.8	6.0	32.9	44.2	-1.6
Current value of imports of goods and services	15.5	22.6	28.4	28.2	-7.8
Consumer price index					
December-December	11.4	8.8	19.6	16.6	11.6
Annual averages variation	11.8	10.2	14.7	17.5	14.3
Money supply	31.4	27.6	27.9	24.5	16.1
Rate of unemployment	...	-12.9	-16.4	...	4.9
Current revenue of government	25.6	3.4	31.0	54.1	4.9
Total expenditure of government	20.6	28.2	44.9	51.9	76.9
Millions of dollars					
C. External sector					
Trade balance (goods and services)	318	145	258	663	797
Balance on current account	288	52	-24	433	637
Variation in net international reserves	462	334	334	642	565
External debt	208	315	374	437	435
Exchange rate (TT\$ per US\$)	2.4	2.4	2.4	2.4	2.4

Source: CEPAL on the basis of official data.

^aPreliminary figures.

¹If the growth in the current value of agricultural production (22.6%) is deflated by the rise in the food component of the consumer price index (16.6%), then real growth is 5%. On the other hand, since the food prices index is a mix of imported and domestic prices, and imported prices rose only 3%, it can be argued that the price of domestic food production must have risen by around 30% to yield a cost of living rise (imported plus local food produce) of 16.6%. In view of the existence of price controls and food subsidies, this latter argument is not, strictly speaking correct, but it nevertheless establishes an upper limit on the rise in prices of domestic produce, and so a lower limit on real growth.

Table 2

**TRINIDAD AND TOBAGO: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT FACTOR COST**

	Millions of current Trinidad and Tobago dollars			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1979	1981 ^a	1979	1980	1981 ^a
Total gross domestic product	11 407	15 327	17 037	100.0	100.0	21.0	34.4	11.2
Goods	6 099	8 958	9 235	53.4	52.2	15.9	46.9	3.1
Agriculture	355	362	443	3.1	2.6	4.0	1.9	22.6
Petroleum	4 053	6 421	6 139	35.5	36.0	15.0	58.4	-4.4
Manufacturing (excluding petroleum)	761	912	997	6.7	5.9	23.0	19.9	9.3
Construction	928	1 263	1 656	8.1	9.7	20.4	36.2	31.1
Basic services	1 527	1 753	2 139	13.4	12.6	28.8	14.8	22.0
Electricity and water	159	180	201	1.4	1.2	26.0	13.3	11.8
Transport, storage and communications	1 368	1 572	1 938	12.0	11.4	29.2	14.9	23.2
Other services	3 782	4 617	5 657	33.2	33.2	26.3	22.6	22.5
Commerce, restaurants and hotels	1 173	1 438	1 718	10.3	10.1	17.0	22.6	19.4
Finance insurance and real estate	1 064	1 363	1 898	9.3	11.1	29.1	28.1	39.2
Government	1 002	1 146	1 310	8.8	7.7	45.0	14.3	14.4
Education and culture and community services	304	382	399	2.7	2.3	16.0	25.8	4.6
Personal services	240	288	333	2.1	1.9	7.0	20.1	15.1

Source: CEPAL on the basis of official data.

^aPreliminary figures.

This reversal in 1981 was led by important spurts in cocoa and coffee production, but it was braked by the continued decline in sugar production. All in all, then, 1981 showed mixed trends, but nevertheless marked a reversal in the decline of overall output.

The sharpest setback was suffered by sugar, the economy's principal non-petroleum export. Cane production fell 13% in 1981 (see table 3), while sugar production dropped even more (17%). This disappointing result was explained by the decline in the price of sugar in world markets, combined with low levels of productivity and rising production costs.

The continued high incidence of unplanned cane fires, poor crop management and unusually heavy rainfall during the harvesting season caused an acute drop in the sucrose content of the sugar cane, resulting in poor-quality cane. Harvesting of the crop was made difficult by the heavy rains and muddy terrain. These factors had a severe effect on the amount of sugar extracted from each ton of cane, accelerating the decline of the past few years. Sugar factories continued to operate well below capacity due to poor pre-harvesting preparations and factory down time, the latter due to the lack of spare parts on the one hand and the uneven movement of the cane from field to factory on the other. In addition, operation was adversely affected by sporadic work stoppages occasioned by insufficient notice to workers about changes in harvesting operations during the inclement weather and also by conflicting interpretations of negotiated agreements between management and labour. Further, the general lack of information as to the future of the sugar industry has caused some degree of apathy and generated a lack of motivation to work, as evidenced by the high incidence of absenteeism during the harvesting period, both in the fields and the factories.

Cocoa production, which had been on the decline over the last decade, showed a rapid turnaround in 1981, when output more than doubled, virtually recovering its 1975 level. This increased production can be attributed to the revival of the cocoa industry through the National Rehabilitation Programme, which introduced a system of guaranteed prices for the crop. Almost 60% of cocoa bean production was exported in 1981, the volume of cocoa exports thereby increasing by over one-third. Estimates for 1981 suggest that coffee production grew over 55% during the year, thereby reversing the declining trend of the last six years and enabling output to approach its previous peak, registered in 1975. This subsector also benefitted from the National Rehabilitation Programme. Exports of coffee were expected to be much improved in 1981, with preliminary estimates indicating a two-thirds increase in their volume. The substantial increase in the output of both cocoa and coffee can be partially attributed to the heavy rains experienced early in the year.

Data for the first six months of 1981 indicate a 35% decline in citrus production as against the corresponding period in 1980. Crop diseases, poor estate management, labour shortages and the use of large parcels of citrus lands for housing have contributed to the fall in production. Moreover, local producers continue to face the effects of the importation of large quantities of concentrated juice from other Caribbean Community countries, mainly Belize.

With regard to other crops, such as tobacco, copra and vegetables, it is believed that these suffered setbacks in production in 1981 due to poor local demand, crop diseases, reduction of acreage under cultivation and labour shortages. Because of poor drainage, there was severe flooding in most agricultural areas throughout the year, resulting in massive crop losses and making necessary the importation of vegetables. An ineffective agricultural marketing system, together with an inefficient transport system, has hindered the production of perishable and seasonal crops. Moreover, production of these crops was reduced as farmers responded negatively to what they considered unsatisfactory levels of guaranteed prices. Another factor in the decline in agricultural production was the withdrawal of prime land from agriculture and its use for housing

Table 3

TRINIDAD AND TOBAGO: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands tons			Growth rates		
	1979	1980	1981 ^{a,b}	1979	1980	1981 ^c
Sugar cane	1 710.0	1 499.0	1 299.0	-3.0	-12.3	-13.3
Cocoa beans	2.6	2.4	2.3	-21.4	-9.4	25.5
Coffee beans	2.5	2.2	2.3	-0.1	-13.5	10.3
Oranges	3.0	2.6	...	35.6	-12.8	...
Grapefruit	3.9	4.0	...	-29.6	2.8	...
Copra	6.8	4.0	...	-8.1	-41.2	...
Meat						
Beef and veal	2.0	2.0	1.0	37.1	2.2	-2.0
Pork	2.4	1.8	0.9	12.0	-25.9	3.9
Poultry ^d	26.7	23.5	12.9	-20.6	-12.3	-
Fish	2.5	2.4	1.0	-13.6	-4.4	-4.9
Eggs	2.9	...	...	-19.0	...	...
Milk ^e	6.3	5.5	4.2	5.5	-12.2	40.6

Source: Quarterly Economic Report, October-December 1979; Review of the Economy 1980 and data supplied to CEPAL.

^a Preliminary figures.

^b January-June.

^c January-June 1981 with respect to January-June 1980.

^d Live weight.

^e Thousand litres.

Table 4

**TRINIDAD AND TOBAGO: LOCAL CRUDE PETROLEUM EXPORTS AND
LOCALLY REFINED CRUDE, 1975-1981**

(Millions of cubic metres)

Year	Total production			Domestic crude exports	Percentage of total	Domestic crude refined locally	Percentage of total
	Total	Land	Marine				
1975	12.5	...	...	7.7	62	4.8	38
1976	12.3	2.6	9.7	7.0	57	5.3	43
1977	13.3	2.6	10.0	7.9	59	5.4	41
1978	13.3	2.6	10.7	8.1	61	5.2	39
1979	12.4	2.7	9.7	7.0	56	5.4	44
1980	12.3	2.7	9.6	7.3	59	5.0	41
1981	10.8	...	...	6.0	56	4.8	44

Source: Central Bank of Trinidad and Tobago: *Review of the Economy*, 1981 and *Quarterly Economic Bulletin*, March 1982.

developments, new industrial activities and the construction of roads. Although the Government has increased its agricultural subsidy programme and introduced specific programmes aimed at developing agriculture, many infrastructural prerequisites (roads, electricity, irrigation, etc.) are not fully satisfied.

As regards the livestock sector, half-year estimates indicate a mixed performance in this sub-sector. Whereas there were improved production levels for pork and mutton, beef and veal production declined somewhat, while poultry output held steady. Major factors affecting the meat industry have been the difficulties in obtaining adequate supplies of feed and also the high costs of the available supplies.

(ii) *Petroleum*. Petroleum is the dominant sector of the economy accounting for 36% of the gross domestic product, over 90% of exports, and the bulk of government revenue. The Trinidadian economy is thus to a large extent governed by the behaviour of this single activity (along with refining). In 1981 the value of overall petroleum output declined by a little over 4% in nominal terms (see table 2). Inasmuch as the prices of petroleum and its derivatives rose by almost 14%, this implies that the volume of output must have fallen by almost 18%. Crude oil production has been on the decline since 1978, when it reached its peak production of 13.3 million cubic metres. Preliminary estimates suggest that production in 1981 was 12% less than 1980 (see table 4), largely due to the introduction of gas conservation measures in fields producing associated gas off the East Coast, to the maturing of existing wells and to the closure of wells of the East Coast to avoid the flaring of associated gas. Indications are that marine wells continued to account for the greater part of domestic production, despite their decline in output since 1978. Land production, on the other hand, has remained stable over the last few years, thanks to the fiscal incentives granted to producers, the drilling of new wells and the adoption of secondary recovery techniques. Local crude petroleum exports have been declining, reflecting the pattern of domestic production. In 1980, just over 7.3 million cubic metres (59% of domestic production) was exported, whereas in 1981 6.0 million cubic metres (56% of local crude production) was exported, some 18% less than in 1980.

Trinidad not only produces crude petroleum but also refines it. Indeed, heretofore it refined more than it produced, processing substantial amounts of imported crude in its own refineries. These are designed, however, for heavy oils, whereas national output of crude is largely of a lighter variety. Consequently, much of national output is exported as crude to be processed abroad, while

at the same time substantial amounts of heavy crude are imported to be processed in Trinidad's refineries and then re-exported. Nevertheless, on a net basis up to now Trinidad has still refined more than it has produced.

Over the last five years, throughput at the refineries has been on the decline, and this trend continued into 1981, when throughput was estimated to have declined some 19% below the 1980 level (see table 5). This again resulted in significant excess refinery capacity (estimated at 45% in 1980). This overall decline in refinery throughput is due to the substantial reduction in the amount of imported crude processed under agreement and the declining supply of spot imported crude.

Imports of crude oil fell to 6.1 million cubic metres in 1981, down 27% from 1980. Thus, for the first time in the industry's history, the level of crude imports was virtually equalled by that of exports, so that Trinidad is no longer refining more than it produces (see table 6). Should this tendency continue, it will become more a producer than a processor of petroleum.

The sharp decline in the refining of crude in Trinidad is due to the shift away from heavy crude to the more profitable light crude, for which Trinidad's refineries are not designed. Added to this, US tax legislation has made it more profitable for US-owned companies to have their crude processed in the United States and dependencies rather than elsewhere. Further, the deep recession in the United States and a system of fuel-switching, together with the decline in international demand for petroleum products, have resulted in local refineries having a large amount of excess capacity.

Production of natural gas reached a record level in 1980. However, preliminary estimates suggest that output for 1981 was marginally lower due to government conservation measures. Approximately half of total gas production is used as fuel or processed gas, mainly by the refineries, the Electricity Commission and a few energy-intensive industries. It is expected that the conservation measures introduced early in 1981 will help to reduce the proportion of gas flared. To this end some wells of the East and North Coast areas were capped to avoid the flaring of high-pressure associated gas. This has resulted in lower oil production from these wells.

In April 1981, Parliament promulgated the Petroleum Taxes (1980) Act. This revised the taxation system for petroleum companies in keeping with international principles. One of the provisions involves the use of actual or realized prices in the computing of taxable income, rather than the tax reference prices. There were also other production incentives.

Table 5

**TRINIDAD AND TOBAGO: REFINERY THROUGHPUT, OUTPUT AND EXPORTS
OF REFINED PRODUCTS**

(Millions of barrels/cubic metres)

Year	Refinery throughput		Refinery output		Refinery products exported		Imports as percentage of refinery throughput
	Barrels	Cubic meters	Barrels	Cubic meters	Barrels	Cubic meters	
1975	85.7	13.6	82.9	13.2	91.4	14.5	67.6
1976	117.6	18.7	114.3	18.2	103.5	16.5	72.2
1977	99.3	15.9	75.5	15.3	82.2	13.1	66.9
1978	85.9	13.7	83.0	13.2	72.6	11.5	65.7
1979	82.9	13.2	79.6	12.7	66.8	10.6	62.1
1980	78.3	12.4	82.5	13.1	67.4	10.7	66.9
1981	63.3	10.1	54.1	8.6	-	...	60.4

Source: Ministry of Energy and Energy-Based Industries.

Table 6

TRINIDAD AND TOBAGO: CRUDE OIL PRODUCTION, IMPORTS AND EXPORTS

(Millions of barrels/cubicmetres)

Year	Crude oil production		Crude oil imports		Crude oil exports	
	Barrels	Cubic metres	Barrels	Cubic metres	Barrels	Cubic metres
1975	78.6	12.5	58.1	9.2	48.8	7.7
1976	77.7	12.3	84.8	13.5	44.4	7.0
1977	83.6	13.3	65.8	10.5	49.4	7.9
1978	83.8	13.3	56.8	9.0	51.2	8.1
1979	78.2	12.4	51.6	8.2	44.3	7.0
1980	77.6	12.3	52.4	8.3	41.1	7.3
1981	68.0	10.8	38.6	6.1	37.6	6.0

Source: Ministry of Energy and Energy-Based Industries.

In 1981 the Government presented a White Paper on natural gas, establishing the Natural Gas Corporation as the sole purchaser or distributor. It also indicated that the country's proven reserves were now 10.6 TCF (trillion cubic feet), while estimated local reserves were 17.9 TCF.

(iii) *Manufacturing*. Industrial output (exclusive of oil and sugar) fell 4 1/2% in 1981 (see table 7). This was the first such decline since 1972, and contrasts sharply with the strong growth of the past five years, which was never less than 6% in any year and averaged 10% per year over the period. As a result the share of manufacturing in the gross domestic product fell below 6% in 1981.

Activity in the beverages and tobacco sector declined some 5% in 1981 after recording growth of 18% in 1980. This downturn was mainly due to the closure of one tobacco company and the low level of domestic supply of raw tobacco and non-alkoholic beverages.

Output in the textiles, knitted garments and footwear subsector declined by an estimated 21% after the 9% growth rate of 1981. This reduction in output can be attributed to labour disputes in the textile and footwear industries, which reduced the number of man-hours available for production, to the increased importation of garments, and to the closure of some firms. After two years of rising production levels, output in the wood and related products sector fell by 26%.

The 20% decline in production in the chemical and non-metallic products sector was due to the low levels of production of fertilizers, of glass and plastic components for construction, and of petrochemicals and pharmaceuticals. The lower fertilizer output (some 19% below the 1980 level) was due to industrial unrest, to the unreliable supply of natural gas, and to numerous interruptions in the supply of electricity and water.

In the assembly-type manufacturing subsector growth decelerated to 2%. The production of motor vehicles rose 13% in 1981 (see table 8), thus making up for a good part of the 22% decline in 1980, but the production of household appliances fell considerably in 1981: by 46% in the case of refrigerators, and by 35% in that of gas cookers. Finally, production of television sets and radios rose marginally in 1981 (by 4% and 3% respectively).

(iv) *Construction*. Construction, which accounts for nearly 10% of the GDP, continued to be the most dynamic activity of the economy in 1981, its growth being estimated at 13% (in real terms). The performance of this sector was governed by the growth of both the disposable income of consumers and investment by producers, each of these being a clear reflection of the increased income generated by the petroleum industry after the 1979 price hikes. This continued dynamism is all the more impressive given the fact that in 1981 there continued to be bottlenecks due to shortages of both materials and skilled building craftsmen.

During the year, there was an inadequate supply of most building materials which was worsened by the fall in domestic production of cement and of bricks and blocks (by 25% and 18%

Table 7

TRINIDAD AND TOBAGO: INDICATORS OF MANUFACTURING PRODUCTION

(1977 = 100)

	1978	1979	1980	1981 ^a
Index of manufacturing production - Total ^b	108.4	115.0	123.3	117.8
Food processing	105.8	116.1	126.1	126.0
Drink and tobacco	96.2	93.4	110.3	104.5
Textiles, knitted goods and footwear	99.1	96.3	104.9	82.6
Printing, publishing and paper converters	97.7	116.6	122.6	135.1
Wood and related products	88.7	119.0	122.5	90.2
Chemical and non-metallic products	126.1	128.6	139.2	111.6
Assembly-type and related industries	112.4	114.8	123.8	126.0
Miscellaneous manufactures	103.8	120.9	107.2	124.6
Oil	86.3	82.6	86.8	64.1
Sugar	86.2	83.6	65.1	55.8
All industry index	99.0	101.4	107.2	94.9

Source: Central Bank of Trinidad and Tobago, Quarterly Economic Bulletin, Vol. VII, N°3, March 1982

^aPreliminary figures.^bExcluding oil and sugar.

Table 8

TRINIDAD AND TOBAGO: OUTPUT OF SELECTED INDUSTRIAL PRODUCTS

	1978	1979	1980	1981 ^a	1978	1979	1980	1981
Sugar ^b	147	143	113	93	-16.5	-2.8	-21.2	-17.8
Rum ^c	4.7	3.2	4.9	...	10.4	-31.1	53.4	...
Beer and stout ^d	2.5	3.0	3.5	...	-18.9	21.4	11.6	...
Cigarettes ^e	1.0	0.9	0.8 ^f	...	1.4	-12.5	-31.3	...
Edible oil ^d	7.3	8.1	5.7 ^g	...	-1.5	10.8	76.3	...
Margarine, lard and butter substitutes ^e	7.6	7.4	3.6 ^g	...	11.1	-1.7	-6.2	...
Soap ^e	4.4	3.9	1.7 ^g	...	-0.6	-11.7	-22.8	...
Cement ^h	223.5	217.7	186.2	139.3	2.5	-2.6	-14.5	-25.2
Bricks and blocks ^h	2.5	2.7	2.9	2.4	-0.8	-7.7	7.0	-18.2
Fertilizers ^h	632.0	604.9	687.0	555.4	84.8	7.2	13.6	-19.2
Assembly Industries ⁱ								
Motor vehicles	16.2	15.2	11.9	13.4	13.0	-5.8	-22.3	13.4
Radios	10.0	8.0	8.3	8.5	-33.4	-20.3	3.7	2.8
Televisions	2.0	10.5	12.8	13.3	-10.8	-12.3	21.2	3.8
Gas cookers	22.3	15.3	23.4	15.3	-17.5	-31.7	53.3	34.7
Refrigerators	25.0	21.1	27.6	14.9	9.0	-15.6	30.4	-46.1

Source: Quarterly Economic Report.

^aPreliminary figures.^bThousands of tons.^cThousands of proof gallons.^dMillions of litres.^eTons.^fJanuary-September.^gJanuary-June.^hMillions of units.ⁱThousands of units.

respectively). In order to meet the shortfall in production, imports rose substantially, reaching almost 2/3 of total consumption of cement in 1981. Since bricks and blocks are more costly to import than cement, some construction firms adopted the precast system of building to speed up delivery of housing projects. Even so, the block-making industry suffered under-utilization of plant capacity because of the insufficient supply of key inputs such as cement, sand and gravel.

The National Housing Authority continues to be the main source of funds for low-income and emergency housing. Despite the Government's goal of building 6 500 houses a year, public funds for housing fell by 17% in nominal terms, and less than 3 000 houses were scheduled for completion in 1982.

3. The external sector

Provisional balance-of-payments estimates indicate a surplus of almost US\$ 800 million dollars on trade in goods and services: a 20% increase over 1980 (see table 9).

The value of exports fell off 2% in 1981, after a near 50% increase in 1980. This was the first such decline since before 1970, and it affected both petroleum and non-petroleum-related exports, traditional as well as non-traditional exports (see table 10). As for imports, tighter monetary controls by the Central Bank are thought to be responsible for their even sharper decline in 1981, by nearly 8%: again the first such decline since before 1970.

Because the unit price of exports rose almost 14%, whereas that of imports grew only 3%, the terms of trade for goods rose over 9% (see table 11), while the terms of trade for goods and services improved almost 5% during 1981. This improvement was due to the residual increase in petroleum prices on world markets and the relatively slow growth of import prices in US dollars, given the revaluation of the dollar.

Overall trade with CARICOM countries was estimated at nearly TT\$ 280 million in 1981—an increase of 6% over 1980. This was the result of the 14% increase in imports, since exports to this area grew by only 1% in 1981. It was nevertheless estimated that Trinidad and Tobago would record a favourable trade balance with the CARICOM market of about TT\$ 42 million (23% lower than the 1980 surplus).

The surplus on current account grew 47% with respect to 1980, reaching almost US\$ 640 million. This increase was due to the strong trade surplus, plus the continued growth in interest payments received by Trinidad on its overseas investments and holdings of foreign reserves. These receipts equalled almost 70% of the interest and factor payments made by Trinidad in 1981.

Net movements on the capital account seem to have been negligible in 1981—well below 1980's US\$ 200 million—so that the balance-of-payments surplus declined 12%, although still permitting a US\$ 550 million rise in the reserves. It is worth pointing out that this increase in the reserves was by itself 30% larger than all of Trinidad's foreign debt. The overall foreign reserves at the end of 1981 stood close to US\$ 3 200 million: the equivalent of 18 months of imports and of the order of 50% of the gross domestic product. This means, for example, that were Trinidad to receive 5% real interest on its reserves, its national income would grow annually by roughly 2 1/2% because of interest payments alone.

The Government of Trinidad and Tobago continued its policy of giving financial assistance to CARICOM countries, providing balance-of-payments support, and making available loans for development purposes and the purchasing of Bonds and Treasury bills. These funds have been issued (over the past two years) mainly through the "Facility for Financing Oil, Fertilizer and Asphalt Purchases by CARICOM from Trinidad and Tobago" (commonly called the CARICOM Oil Facility) and the Caribbean Aid Council. The CARICOM Oil Facility finances the increases in cost of the commodities it covers over the prices prevailing at the base rate of 1 January 1979 by making concessionary loans with a 15-year maturity. These amounted to close to TT\$ 60 million in 1980 and close to TT\$ 10 million in 1981, more than 98% of which has gone to Guyana.

Table 9

TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS

(Millions of US dollars)

	1975	1976	1977	1978	1979	1980	1981
Exports of goods and services	1 231	1 320	1 475	1 563	2 078	2 995	2 948
Goods FOB	987	1 053	1 175	1 218	1 649	2 536	2 468
Services ^a	244	266	300	345	428	460	480
Transport and insurance	91	95	116	145	204	220	220
Travel	75	76	91	111	122	135	160
Imports of goods and services	857	1 002	1 157	1 418	1 820	2 333	2 151
Goods FOB	677	787	893	1 045	1 325	1 753	1 581
Services ^a	181	215	264	373	495	580	570
Transport and insurance	101	118	137	197	249	330	300
Travel	33	37	52	66	102	130	150
Merchandise balance	311	266	282	173	324	783	887
Trade balance	374	318	318	145	258	663	797
Profits and interest	-78	-101	-13	-69	-251	-200	-130
Profits	-102	-144	-81	-172	-356	-400	-400
Interest received	43	60	77	125	160	270	350
Interest paid	-19	-17	-9	-22	-55	-70	-80
Unrequited private transfer payments	-12	-11	-17	-24	-30	-30	-30
Balance on current account	284	206	288	52	-24	433	637
Unrequited official transfer payments	-12	-20	-15	-17	-19	0	0
Long-term capital	189	-25	222	268	297	66	0
Direct investment	203	10	84	129	94	0	0
Portfolio investment	-1	-9	-1	101	-4	0	0
Other long-term capital	-13	-123	140	38	207	66	0
Official sector ^b	-13	-100	144	-1	56	68	0
Loans received	5	5	156	3	60	232	0
Amortization payments	-13	-30	-4	-4	-4	-164	0
Commercial banks ^b	0	-1	-5	0	-1	-2	0
Loans received	0	0	0	0	0	0	0
Amortization payments	0	0	0	0	0	0	0
Other sectors ^b	0	-22	1	39	152	0	0
Loans received	2	1	3	83	196	0	0
Amortization payments	-2	-23	-1	-42	-44	0	0
Basic balance	461	162	496	303	255	499	637
Short-term capital	-17	-27	44	13	-56	2	0
Official sector	-10	-11	0	-15	-11	-24	0
Commercial banks	7	-4	6	17	-30	25	0
Other sectors	-14	-12	37	12	-16	0	0
Errors and omissions (net)	15	66	-96	21	145	132	-82
Balance on capital account	174	-6	156	285	368	200	-82
Global balance ^c	458	200	444	337	344	633	554
Total variation in reserves ^c (- sign indicates an increase)	-365	-265	-462	-334	-334	-642	-565
Monetary gold	0	0	0	-1	-1	0	0
Special Drawing Rights	1	0	-6	-7	-19	-5	-14
IMF reserve position	-16	-10	-1	-5	-11	-31	-11
Foreign exchange assets	-345	-252	-461	-311	-303	-607	-540
Other assets	-4	-3	6	-10	0	0	0
Use made of IMF credit	0	0	0	0	0	0	0

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook* 1981; CEPAL, on the basis of official data.

^aServices also include other official and private transactions, but not profits and interest.

^bIn addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^cThe difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

Table 10

TRINIDAD AND TOBAGO: SELECTED EXPORTS OF GOODS

	Millions of TT dollars (FOB)				Growth rates			
	1978	1979	1980	January June 1981	1978	1979	1980	1981 ^a
Total domestic exports	4 803	6 175	9 716	4 307	-7.4	28.6	57.3	3.1
Main traditional exports								
Petroleum products	2 343	3 288	5 115	2 274	-14.2	40.3	55.6	-11.4
Crude petroleum ^b	2 029	2 349	3 925	1 679	-1.3	15.8	61.1	14.7
Sugar ^c	54	84	61	65	-35.6	57.2	-20.2	-3.3
Rum	10	14	13	5	30.8	41.2	-11.8	2.0
Natural asphalt	-	3	3	1	-87.1	...	-2.9	-
Main non-traditional exports								
Petrochemicals	56	92	91	33	-16.2	63.4	-1.2	-34.8
Fertilizers and ammonia	122	117	150	49	99.3	-3.8	28.3	-33.6
Cocoa beans	27	22	18	13	28.4	-18.0	-19.6	-9.9
Coffee beans	11	9	7	4	16.7	-20.2	-21.1	-0.5
Citrus and citrus juice	3	4	5	2	63.2	35.5	19.0	-29.4
Cement	-	-	-	-	-	-	-	-

Source: Central Statistical Office, *Quarterly Economic Report*, October-December 1979, and data supplied to CEPAL.

^aJanuary-June 1981 with respect to same period of 1980.

^bCrude and partly refined petroleum.

^cRefined and unrefined sugar.

^dBecause of the relatively low base at 1975 the value for 1979 yields an enormous growth rate of 750 per cent.

Table 11

TRINIDAD AND TOBAGO: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981
Growth rates						
Exports of goods						
Value	6.7	11.6	3.6	35.4	53.7	-2.7
Volume	9.1	-0.7	1.9	-5.6	-1.6	-14.4
Unit value	-2.2	12.4	1.7	43.5	56.2	13.8
Imports of goods						
Value	16.3	13.4	17.0	26.8	32.3	-9.8
Volume	12.1	5.5	5.8	18.1	17.3	12.6
Unit value	3.8	7.5	10.7	7.4	12.7	3.2
Terms of trade	-5.9	4.6	-7.6	33.1	39.4	9.4
Indexes (1970 = 100)						
Terms of trade	303.9	317.9	293.7	391.0	545.2	596.5
Purchasing power of exports of goods	260.9	271.0	256.9	322.5	440.9	409.7
Purchasing power of exports of goods and services	213.8	222.5	215.7	265.8	340.7	320.1

Source: CEPAL, on the basis of official data.

4. Prices and wages

(a) *Prices*

The rate of inflation, as measured by the Consumer Price Index, abated somewhat in 1981, when prices rose by a little over 14%, compared with inflation rates of 15% and 18% in 1979 and 1980 respectively. Nevertheless, inflation continued to be a source of concern within the economy. The persistent inflationary situation in the industrialized countries, the increased cost of imported goods, the poor performance of local activities, the lack of growth in labour productivity and the impact of increased government expenditure were among factors contributing to the rise in the general price level. The deceleration compared with 1980 was due to tighter monetary control and very especially to the lower rate of imported inflation. Moreover, the impact of inflation was cushioned by a policy of price controls and the continuation of the subsidy programme.

The most significant deceleration in the rate of price rises in 1981 was observed in the Transportation section of the index, where the rates of increase measured in 1979, 1980 and 1981 were 27, 24 and 11% respectively (see table 12). Price controls on foodstuffs accounted to some extent for the observed decline in the rate of price rises in the Food and Drink and Tobacco sections. The Food section, which carries 33% of the weight of the index, registered a near 17% price increase —some 3% below the rate of the previous year. A general decline in the rate of price increases in all the sections with the exception of clothing was noted.

(b) *Wages*

During the year, wage negotiations for over 52 000 public servants were concluded, with a 60% wage increase being agreed on for a three-year period commencing 1981. No payments of the

Table 12

TRINIDAD AND TOBAGO: EVOLUTION OF CONSUMER PRICE INDEX

(September 1975 = 100)

	1977	1978	1979	1980	1981
Percentage variation December to December					
Total	11.4	8.8	19.6	16.6	11.6
Food	11.2	6.8	22.9	17.9	12.0
Drink and tobacco	10.6	11.7	19.3	17.5	14.3
Housing	14.8	14.1	21.8	18.5	11.4
Household supplied	10.7	11.3	15.1	13.9	7.6
Services	13.9	13.9	26.8	17.9	14.8
Clothing	10.4	6.1	13.0	7.2	11.8
Transportation	...	...	24.2	26.5	8.0
Annual average variations					
Total	11.8	10.2	14.7	17.5	14.3
Food	6.9	9.1	13.8	19.3	16.6
Drink and tobacco	10.5	15.0	11.6	19.3	14.6
Housing	12.8	16.0	20.2	17.6	15.3
Household supplied	12.2	10.9	13.8	13.6	12.5
Services	10.6	18.3	17.4	23.0	16.5
Clothing	14.7	8.3	8.8	9.0	12.5
Transportation	20.0	10.2	27.3	24.0	10.6

Source: Trinidad and Tobago Gazette (Extraordinary) Vol. 21, Nº 32, 3 February 1982 and data supplied from Central Statistical Office.

new salary increases will be made until 1982, however. As may be observed from table 13, the overall level of nominal wages and salaries grew by almost 19% in 1981, implying an increase of close to 4% in real terms, the fourth consecutive year in which real wages grew significantly.

5. Monetary and fiscal policy

(a) *Monetary developments*

During 1981 the Monetary Authority's demand management policies, together with the general slowdown of the economy, resulted in relatively slow growth of liquidity in the economy: M_1 rose 16%, M_2 grew 23%, and both together increased just under 21% (see table 14). This, together with the revaluation of the US dollar, helped to slow the rate of inflation.

Table 13

TRINIDAD AND TOBAGO: EVOLUTION OF WAGES^a AND SALARIES

	Index 1976 = 100				Growth rates			
	1978	1979	1980	1981 ^b	1978	1979	1980	1981 ^c
Wages and salaries								
Nominal	140.8	170.4	208.2	238.1	24.4	21.0	22.2	18.5
Real	114.3	120.6	125.4	130.0	12.8	5.5	4.0	3.7

Source: Data supplied CEPAL by Central Statistical Office, Trinidad and Tobago.

^aData are in respect of average of May/November.

^bMay 1981.

^cMay 1981 with respect to May 1980.

Table 14

TRINIDAD AND TOBAGO: MONETARY BALANCE

	Balance at end of year in millions of Trinidad and Tobago dollars				Growth rates		
	1978	1979	1980	1981	1979	1980	1981
Money	928	1 187	1 478	1 716	27.9	24.5	16.1
Currency outside banks	296	412	467	533	39.3	13.5	14.1
Demand deposits	632	775	1 011	1 183	22.6	30.4	17.0
Factors of expansion	3 428	4 611	5 533	7 359	34.5	20.0	33.0
Foreign assets (net)	4 225	5 076	6 482	7 780	20.1	27.7	20.0
Domestic credit (net)	-797	-465	-949	-421	-41.6	104.1	-55.7
Government (net)	-3 211	-3 320	-4 490	4 792	3.4	35.3	6.8
Official entities	78	121	227	308	55.7	87.6	36.0
Private sector	2 337	2 734	3 314	4 069	17.0	21.2	22.8
Factor of absorption	2 500	3 423	4 054	5 643	36.9	18.4	39.2
Quasi-money	2 027	2 725	3 002	3 693	34.4	10.1	23.0
Savings deposits	1 053	1 537	1 648	2 089	45.9	7.2	26.7
Time deposits	974	1 188	1 354	1 604	22.0	13.9	18.6
Other items	473	698	1 052	1 950	47.7	50.7	85.3

Source: Monthly Statistical Digest, May 1982, Central Bank of Trinidad and Tobago.

Throughout the year, the government continued its policy of selective credit, limiting new credit to individuals for non-business purposes and at the same time increasing the marginal reserve requirement of commercial banks. An additional 15% of all new deposits (making a total of 20%) was required to be placed with the Central Bank in order to dampen the rate of monetary growth. Consequently, at the end of 1981 commercial bank reserves deposited with the Central Bank had risen 26% over the 1980 level.

In other measures adopted to curb the growth of monetary resources, the government allowed some TT\$ 20 million of Barbados Government Bonds to be offered on the domestic market and at the same time sought to raise TT\$ 17 million in local Treasury bills (tax free bonds) during 1981. Additionally, in August 1981 the Caribbean Development Bank issued TT\$ 10 million in bonds on the local market.

A further development in the financial system was the promulgation of the Unit Trust Corporation of Trinidad and Tobago Act in October 1981, aimed at offering small investors wide participation in the securities market. Also in October 1981 came the promulgation of the Securities Industries Act and the opening of the Trinidad and Tobago Stock Exchange for business. The opening of this Exchange resulted in a sharp rise in the number of transactions for public company shares in 1981.

Table 15
TRINIDAD AND TOBAGO: CENTRAL GOVERNMENT REVENUE
AND EXPENDITURE

(TT\$ 1.000 million)

	1977	1978	1979	1980	1981	Growth rates			
						1978	1979	1980	1981
Recurrent revenue									
Tax revenue of which:									
Income tax	1.83	1.83	2.48	4.24	4.91	-0.3	35.7	70.6	15.9
Royalties	26	27	41	54	60	3.7	52.6	31.0	11.1
Customs and excise	24	28	33	46	50	16.1	15.0	40.8	8.7
Purchase tax	5	6	8	10	10	17.3	23.5	28.0	3.3
Other	57	62	71	81	51	8.2	15.4	13.7	-36.5
Total recurrent revenue	2.98	3.08	4.03	6.17	6.65	3.4	31.0	53.1	7.7
Recurrent expenditure									
Wages and salaries	59	71	89	1.08	1.34	20.5	25.6	20.6	24.2
Goods and services	20	25	39	52		28.6	53.0	33.4	
Transfer to persons	7	12	15	17		57.4	22.5	16.9	
Transfer to local authorities and others	14	16	28	35	1.41	14.0	79.6	22.3	301.5
Interest on the public debt	4	8	12	12	19	88.5	56.5	-0.5	57.8
Subsidies	5	7	16	28	41	56.1	109.9	72.5	43.8
Unemployment fund	5	6	21	21	26	22.4	235.4	-2.2	24.8
Total recurrent expenditure	1.16	1.48	2.24	2.77	3.36	27.5	51.6	23.2	21.3
Current surplus	1.81	1.60	1.78	3.40	3.29	12.0	11.8	103.9	-3.2
Capital receipts				2	3	-58.3	-96.0	...	34.1
Capital expenditure	1.09	1.40	1.94	3.15	3.45	28.8	37.9	62.4	9.4
Total expenditure	2.25	2.89	4.19	5.92	6.81	28.2	44.9	41.3	15.0
Total revenue	2.98	3.08	4.03	6.20	6.69	3.3	39.6	53.6	7.9
Fiscal surplus (+) or deficit (-)	73	19	-15	27	12	...	...	...	-55.6

Source: Monthly Statistical Digest, May 1982, Central Bank of Trinidad and Tobago.

*Small base yields sizeable increase (48 100.0).

(b) *Fiscal developments*

Though the government's direct contribution to the gross domestic product is estimated at only 8%, total government revenue in 1981 amounted to close to TT\$ 6 650 million, or about 40% of GDP (see table 15). This, of course, reflects the importance of petroleum in the economy and in fiscal revenues. The government recycles these funds back into the economy, either by capital expenditure (50% of government expenditures) or by income transfers and subsidies to individuals and local authorities (together, 21% of government expenditures). Thus, by far the smallest part of government spending (20%) is accounted for by recurrent expenditure on wages and salaries to provide traditional government services.

In 1981 the rate of expansion of fiscal expenditure and revenues decelerated sharply from the previous year's strong growth, to 15% and 8% respectively, reflecting the much slower increase in petroleum prices. Nonetheless, a small fiscal surplus was generated. Revenue from corporation taxes rose 14%, down from 77% in 1980. This was the result of a revised tax policy on oil companies as well as a consequence of the downturn in industrial activity in 1981. Revenue from personal income tax grew some 24%, despite the introduction of tax relief, because of the upward creep of tax brackets due to inflation. Nevertheless, on the expenditure side the central government's total expenditure rose only about 15%, well below the previous two years' growth rates. Whereas recurrent expenditure rose by 21% capital expenditure grew by a moderate 9%. Wages and salaries accounted for some 40% of recurrent expenditure, with transfers to local authorities and others taking up 39% of the same account. The financing of these expenditures was met by government borrowing on the local and foreign markets, thereby raising the public debt at the end of 1981 to TT\$ 1 714 million (marginally higher than 1980): 61% of this was external debt.

URUGUAY

1. Recent economic trends: Introduction and summary

In 1981 the flagging dynamism of economic activity observed the year before became even more marked, and the gross domestic product, whose growth rate had gone down noticeably in 1980 compared with the previous two years, actually went down in absolute terms by a little under 1%: something which had not happened since 1972. This slight reduction in the product was accompanied by a further deterioration in the terms of trade, leading to a drop of 1.5% in the gross domestic income (see table 1 and figure 1).

Very varied factors contributed to the virtual stagnation of the global product, but it was those connected with the external sector which predominated. Although exports of goods and services continued to increase at a high rate of the order of 12%, this was well below the growth rates registered in the previous two years, partly because of the difficulties encountered in trade exchanges with Argentina and also because of the loss of competitiveness of exports and the reversal of tourist flows. At the same time, total imports went down by close to 5% (by 11% in terms of volume), in vivid contrast with their rapid rise in recent years.

Commerce, manufacturing and construction were the activities most affected by the deterioration in the economic situation, and their products went down by between 2% and 4%. Agricultural production showed practically no change, while transport, storage and communications registered a slight decline. The downward trend in economic activity began in the second half of 1981 and became more accentuated in the last quarter of the year. Thus, in the second half of the year manufacturing production and construction went down by around 7% and 5%, respectively.

In the area of domestic demand, which went down by close to 4% as a result of the declines in the global product and the volume of imports, together with the bigger volume of exports, the biggest impact was on gross domestic investment, which went down by 18%. Capital formation (machinery and equipment) dropped by 26%, while construction (especially that carried out by the private sector) declined by approximately 5%. Consumption expenditure also showed a reduction, but it was only slight.

The state of recession into which the economy sank during 1981 was accompanied by a slackening of inflationary pressures. The variation between the annual averages of consumer prices was virtually halved, while the growth rate of prices as measured between December and December went down by one-third. The expansion of the means of payment, for its part, went down by a much larger amount (from 51% to 13%).

The priority objective of economic policy continued to be the reduction and control of inflation. The advance fixing of the exchange rate and the maintenance of pronounced trade openness to the exterior have been the basic tools of this policy. Against this background, the Central Bank has played a neutral role, notwithstanding the slight deficits registered by the government operations.

Real wages registered an improvement of 7.5%, which is quite significant because this is the first time that such an improvement has occurred, at least since 1975, since when real wages had deteriorated by one-third. Together with this recovery of wages, the unemployment rate also continued to go down in 1981, when it fell to 6.7%, compared with a rate of close to 12% of the economically active population for Montevideo in 1974. In the second half of the year, however, there was a slight deterioration and the rate went up to 7.5%.

As regards economic and financial relations with the exterior, the increase of over 12% in exports of goods and services and the decline in imports caused the trade deficit to be virtually halved and the balance-of-payments current account deficit to be reduced from US\$ 716 million to US\$ 427 million between 1980 and 1981. Rather than reflecting the increase of 15% in merchandise exports (half the growth rate of the previous year), these results were due to the extraordinary drop in imports of goods, which went down by 12% in value and approximately 20% in volume.

Side by side with the decline in the current account deficit, there was an abrupt drop from US\$ 810 million dollars to US\$ 460 million in the net inflow of capital, which had increased enormously in 1980, but even so this inflow came to more than the current account deficit and

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicators							
Gross domestic product at market prices (millions of dollars at 1970 prices)	3 293	3 432	3 494	3 743	4 102	4 253	4 224
Population (millions of inhabitants)	2.83	2.84	2.86	2.87	2.89	2.91	2.93
Per capita gross domestic product (1970 dollars)	1 164	1 208	1 224	1 303	1 419	1 462	1 443
Annual growth rates							
B. Short-run economic indicators							
Gross domestic product	4.8	4.2	1.8	7.1	9.6	3.7	-0.7
Per capita gross domestic product	4.5	3.8	1.3	6.5	8.9	3.0	-1.3
Gross domestic income ^b	1.9	3.5	2.6	7.8	10.7	3.3	-1.5
Terms of trade (goods and services)	-24.5	-2.3	7.8	5.2	8.4	-3.1	-6.0
Current value of exports of goods and services	10.2	26.4	16.1	12.9	31.3	27.3	12.3
Current value of imports of goods and services	14.2	4.3	29.7	6.1	55.1	42.5	-4.7
Consumer prices							
December - December	66.8	39.9	57.3	46.0	83.1	42.8	29.4
Variation between annual averages	81.4	50.6	58.2	44.5	66.8	63.5	34.0
Money	53.5	61.2	40.4	65.6	88.5	50.7	12.5
Wages and salaries ^c	66.4	42.0	39.0	39.6	52.6	64.4	43.6
Rate of unemployment ^d	...	12.8	11.8	10.1	8.4	7.4	6.7
Current income of government	67.6	74.7	70.6	48.1	93.7	77.5	42.2
Total expenditure of government	70.8	51.8	55.2	49.5	74.7	79.3	43.7
Fiscal deficit/total expenditure of government ^e	26.9	15.9	8.2	9.2	1.5 ^f	0.5 ^f	0.5
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-125	-9	-106	-57	-306	-618	-329
Balance on current account	-198	-82	-172	-133	-363	-716	-427
Variation in international reserves	-44	70	159	131	154	177	35
Total external debt	1 031	1 135	1 320	1 240	1 682	2 153	3 129

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect (goods and services).

^cVariation of average nominal wage between annual averages.

^dAnnual average rate for Montevideo.

^ePercentage.

^fSurplus.

made it possible to increase the country's international reserves by US\$ 35 million: the sixth consecutive increase in these holdings.

Finally, at the end of 1981 the total external debt came to US\$ 3 130 million, 45 % higher than it had been one year before.

2. Evolution of the main sectors

(a) *Total supply and demand*

In 1981 there was a reduction of a little over 2% in the total supply of goods and services, which had grown at the rate of 5.3% per year in the period 1972-1980. The smaller availability of goods and services during the year was caused both by the slight decline in the gross domestic product and by the drop of 11% in the volume of imports of goods and services. As at the same time the volume of total exports registered an increase of a little over 11%, the domestic availability of real resources went down by 3.7%, in contrast with the increases of 14% and 5% registered in 1979 and 1980 (see table 2).

The drop in domestic demand was reflected in a sharp decline in gross domestic investment (-18%), thus interrupting the marked upward trend shown by capital accumulation from the early 1970s onwards (12.5% per year over the period 1972-1980; 27% in 1979 and 13.5% in 1980). Gross fixed investment, for its part, registered a somewhat smaller decline of close to 14%, particularly noteworthy being the sharp drop (-26%) shown by capital formation in machinery and equipment. Investment in construction, for its part, went down by 5%. The data on private investment in construction include investment in permanent crops and plantations, which have shown a pronounced downward trend since 1980 because of the loss of profitability of agriculture.

As regards the other major component of demand —consumption— the available estimates indicate that this registered a slight decline in 1981, attributable exclusively to lower private sector consumption, since general government consumption expenditure increased by around 5% in real terms.

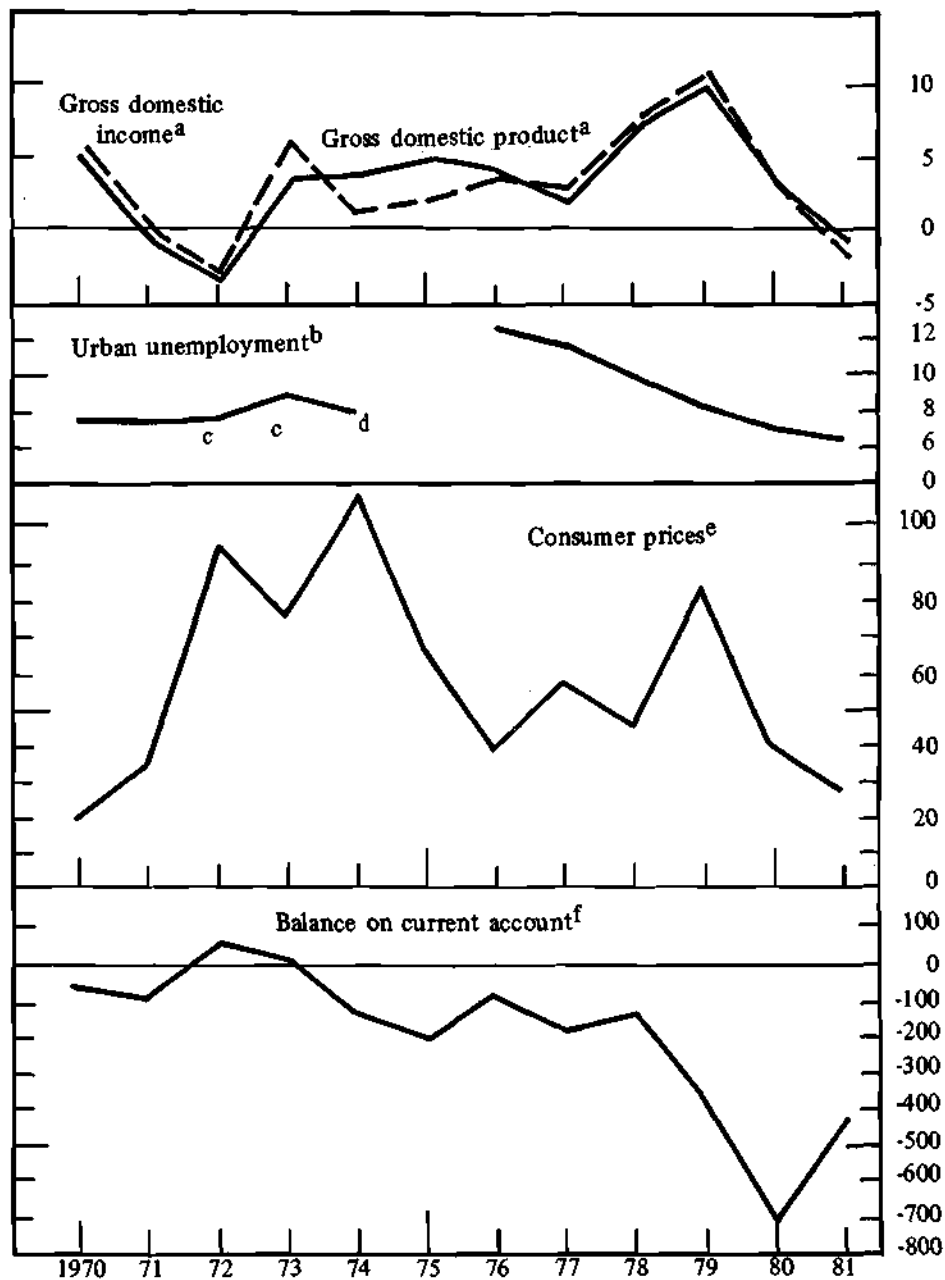
(b) *Evolution of the sectoral product*

During the period 1973-1977, the gross domestic product rose at a rate of 3.5% per year. In the following two years, the rate rose to 8.3%, but in 1980 it fell back to 3.7% and in 1981—for the first time in the last nine years— there was actually a decline of a little under 1% in the level of economic activity.

Among the causes of this recession, which became more marked in the second half of the year, were the following:

- The smaller domestic demand due to the higher interest rates in real terms, which affected private expenditure, especially on durable goods and on the gross formation of fixed capital and stocks.
- Smaller income from tourism and, in contrast, a big increase in spending by Uruguayan tourists abroad.
- A shift of demand for certain manufactures (tyres, textiles, cotton, household electrical appliances, motor vehicles, etc.) to imported products, to the detriment of domestic industry.
- Loss of competitiveness by Uruguayan exports, reflected particularly in the drop in exports to Argentina after the devaluation measures taken in the second quarter of the year in the latter country.
- Smaller external demand due to the recessive situation in the industrial countries and the increase in protectionist measures in many of them, including Latin American countries.
- The drop in construction activity due to a contraction in the demand for real estate, especially by Argentine citizens.

Figure 1
URUGUAY: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAnnual average rate for Montevideo.

^cFirst half of year.

^dAugust 1974 - February 1975.

^ePercentage variation, December - December.

^fMillions of dollars.

The biggest drops were in commerce (-3.7%), manufacturing (-3.2%) and construction (-2.4%). Agricultural production showed a slight decline, as did transport, storage and communications activities. Electricity, gas and water services, for their part, registered a lower growth rate than the year before, but the other services (except for commerce) increased by 2.5% (see table 3).

(i) *Agriculture.* Agricultural production went down by 1.2% in 1981, after having grown by 5% and 11% in the previous two years. According to the preliminary information available, this decline was confined entirely to crop farming production, since livestock-raising showed a slight increase of less than 1% (see table 4).

During the year there were increases in the production of rice (15%), maize (52%), grain sorghum (136%) and wine grapes (76%). Thanks to the increases in yield, rice has been the only major crop which has shown a steady upward trend in the last three years. In contrast, although a larger area was sown with maize and high yields of around 1.3 tons per hectare were maintained, production of this crop was only 5% more than three years before.

On the other hand, important crops such as wheat, linseed, sunflowers and sugar beet registered significant declines. Thus, in the case of wheat, which had shown a notable increase of around 150% the year before (thus recovering much of the production lost in 1978), the 1981 output was 29% down as a result of a reduction in the area sown. Linseed, too, which had more than doubled production in 1980, went down by 67%, due mainly to a reduction in the area sown and to a lesser extent to smaller yields: factors which also explain its irregular performance over the last three years. The decline in the production of sunflower seed (which has gone down by 37% since 1978) also continued during the year. Finally, output of sugar beet, which had partly recovered the previous year from the decline suffered in 1978 and 1979, also went down (-31%).

Cattle production, measured in terms of live weight, showed a drop of 5%, although there was a substantial increase (24%) in terms of the number of animals slaughtered, while total stocks showed a slight rise of 2% to approximately 11.4 million head.

Table 2

URUGUAY: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	4 697	4 943	4 836	109.7	114.5	11.8	5.2	-2.2
Gross domestic product at market prices	4 102	4 253	4 224	100.0	100.0	9.6	3.7	-0.7
Imports of goods and services ^b	595	690	612	9.7	14.5	29.2	16.0	-11.3
Total demand	4 697	4 943	4 836	109.7	114.5	11.8	5.2	-2.2
Domestic demand	4 207	4 418	4 253	101.8	100.7	13.2	5.0	-3.7
Gross domestic investment	731	829	681	12.7	16.1	26.8	13.5	-17.9
Gross fixed investment	697	805	696	11.8	16.5	22.5	15.5	-13.6
Construction	459	475	452	7.8	10.7	14.7	3.4	-4.9
Machinery and equipment	238	330	244	4.1	5.8	41.0	38.7	-26.1
Changes in stocks	34	24	-15	0.9	0.3			
Total consumption	3 476	3 589	3 572	89.1	84.6	10.7	3.2	-0.5
General government	590	595	625	14.2	14.8	11.7	0.9	4.9
Private	2 886	2 993	2 947	74.9	69.8	10.5	3.7	-1.5
Exports of goods and services ^b	491	525	583	7.9	13.8	0.9	6.9	11.2

Source: ECLA, on the basis of figures supplied by the Central Bank of Uruguay.

^a Preliminary figures.

^b The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for the purpose.

The increases registered in previous years in the sheep and poultry sectors also continued in 1981. Mutton production increased by 13% and that of wool by 6%, while poultry production grew by 19%, so that it has almost doubled over the last three years, although egg production only rose by 2% in the year.

(ii) *Manufacturing*. Manufacturing output, which had grown at the rate of 7% per year during the five-year period 1975-1979, slackened to a growth rate of only 2.6% in 1980, and in 1981 it suffered a decline of 3.2% (see table 5).

The performance of export-oriented industries was different from that of the sectors producing primarily for the domestic market. While the latter suffered a decline in their activity, the industries exporting three-quarters or more of their total sales increased their output by 11%, thus improving on their 1980 growth rate of 5% (see table 6).

The changes in the economic situation of Argentina had unfavourable repercussions on the activities of certain export industries and those producing goods primarily for sale to tourists. The industries producing for the domestic market, for their part, were affected mainly by the contraction in domestic demand and in private construction, as well as by the persistence of high interest rates.

The foodstuffs, beverages and tobacco sector expanded by around 10%. The meat-packing industry, in particular, registered a notable increase of 21% due to the expansion in livestock slaughtering. There were also considerable rises in the milling of rice to satisfy the sustained external demand (20%) and in the production of canned fruit and vegetables (72%).

The other industries, in contrast, mostly suffered significant declines in output. Thus, the rubber industry contracted by 25% as a result of the strong competition from imported tyres. Paper and cardboard production went down by 15% due to the decline in exports to Argentina and the bigger competition from imported goods. Likewise, there was an 11% drop in the output of footwear and clothing because of the decline in external sales and the reduction of stocks on the part of intermediaries.

Table 3

URUGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	3 456	3 583	3 558	100.0	100.0	9.6	3.7	-0.7
Goods	1 395	1 467	1 431	40.0	40.1	10.0	5.1	-2.4
Agriculture	326	362	361	12.9	10.1	5.9	10.8	-0.2
Manufacturing ^c	845	867	838	22.9	23.5	10.1	2.6	-3.2
Construction	224	238	232	4.2	6.5	16.3	6.0	-2.4
Basic services	373	389	390	10.7	11.0	11.2	4.3	0.3
Electricity, gas and water	56	62	66	1.6	1.9	3.6	11.2	6.5
Transport, storage and communications	317	327	324	9.1	9.1	12.7	3.1	-0.9
Other services	1 708	1 729	1 744	49.3	48.9	9.2	1.2	0.8
Commerce ^d	449	463	446	13.2	12.5	13.5	3.1	-3.7
Miscellaneous services	1 259	1 266	1 298	36.1	36.4	7.8	0.6	2.5

Source: ECLA, on the basis of figures supplied by the Central Bank of Uruguay.

^aPreliminary figures.

^bAs the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

^cIncluding mining and quarrying.

^dExcluding hotels and restaurants.

Table 4

URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of agricultural production (1961 = 100)	99.6	104.2	115.5	114.1	-6.7	4.6	10.8	-1.2
Crop farming ^b	121.1	122.5	143.1	137.5	-12.2	1.2	16.8	-3.9
Stock-raising	89.7	95.8	102.8	103.5	-1.2	6.8	7.3	0.7
Production of main crops (thousands of tons) ^c								
Wheat	173	174	429	307	-65.7	0.6	146.6	-28.6
Rice	226	248	288	330	-1.2	9.9	16.6	14.9
Linseed	40	31	65	21	-14.2	-21.6	108.7	-67.0
Sunflower	72	51	48	45	108.1	-28.2	-7.4	-5.6
Maize	172	71	119	181	41.9	-58.7	68.3	51.6
Sugar beet	376	357	504	346	-37.0	-5.1	41.3	-31.4
Indicators of stock-raising production								
Number of cattle (millions of head) ^d	10.0	10.3	11.2	11.4	-1.2	2.9	8.5	1.6
Number of cattle slaughtered (millions of head)	1.7	1.3	1.5	1.9	-4.4	-24.0	19.8	24.1
Cattle production (millions of tons live weight)	0.6	0.7	0.7	0.7	-3.5	6.2	5.6	-5.3
Wool output (thousands of tons)	58	62	67	71	-6.3	7.3	7.7	5.6
Poultry production (thousands of tons)	16	20	24	29	8.3	27.4	21.0	19.3
Egg production (millions of eggs)	323	309	382	390	-0.2	-4.4	24.6	2.0

Source: Central Bank of Uruguay.

^a Preliminary figures.

^b Including plantations and permanent pastures.

^c Crop year.

^d At 30 June of each year.

There was also a 6% decline in the output of chemical industries and a 36% drop in that of the motor industry, because of the contraction of the domestic market.

(iii) *Construction.* Another of the sectors most seriously affected by the recession was construction, the decline being particularly evident in private construction and especially that in and around Punta del Este. This Uruguayan resort area is very sensitive to changes in the attitudes of Argentine real estate investors and also depends on the current economic situation in Argentina and Uruguay.

The high real interest rates prevailing during the year were another important factor which discouraged demand for housing.

The National Housing Plan kept up its level of activity at both the private and public levels, but some slackening of activity was observed in the works carried out by the Ministry of Transport and Public Works and the construction work on the Palmar and Salto Grande hydroelectric power stations, because the latter projects are now in their final stages.

3. The external sector

(a) *Merchandise trade*

Despite the problems of prices and markets faced by several of the country's main export products during the year, exports registered a significant increase of the order of 15%, although this was only half that recorded the year before. This increase was due entirely to an expansion in the volume exported, since the prices showed practically no change (-0.2%) (see table 7).

Imports of goods, for their part, showed an appreciable decline of 12% for the first time since 1972. In the two-year period 1979-1980, in contrast, they had increased by 130%. The drop in the volume of imports was a good deal larger (of the order of 20%) and had sharp repercussions on economic activity.

The opposing trends followed by exports and imports during the year caused a 60% drop in the merchandise trade deficit and also contributed to the 40% reduction in the balance-of-payments current account deficit.

On the other hand, the fact that the unit values of exports remained virtually unchanged while there was an increase of 11% of the prices of imports caused a deterioration of 10% in the terms of trade, following the 11% deterioration which had taken place in 1980. In spite of this, however, the purchasing power of exports of goods increased by close to 7% because of the greater volume exported, while the purchasing power of exports of goods and services rose somewhat less (4.5%).

Table 5

URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Index of manufacturing production (1961 = 100)	147.1	162.0	166.2	160.9	8.0	10.1	2.6	-3.2
Foodstuffs	152.1	153.2	163.6	181.9	0.2	0.7	6.8	11.2
Beverages	138.0	158.4	162.7	171.8	9.3	14.8	2.7	5.6
Tobacco	131.4	156.2	154.9	169.2	0.6	18.1	-0.2	9.2
Textiles	136.6	160.9	163.8	148.2	11.7	17.8	1.8	-9.5
Footwear and clothing ^b	108.7	108.5	102.6	91.6	15.1	-0.2	-5.4	-10.7
Paper and paper products	284.9	325.6	352.6	299.0	19.2	14.3	8.3	-15.2
Printing and publishing	136.3	153.3	168.3	171.5	4.0	12.5	9.8	1.9
Leather industries	...	...	...	...	-2.9	-27.7	2.0	1.5
Rubber products	115.8	126.7	124.4	92.8	11.1	9.4	-1.8	-25.4
Chemical products	150.3	187.7	161.6	151.3	8.9	24.9	-13.9	-6.4
Petroleum products	125.7	120.3	118.6	111.7	7.4	-4.3	-1.4	-5.8
Non-metallic mineral products ^c	264.1	302.4	304.5	275.3	2.7	14.5	0.7	-9.6
Metal products	82.1	101.6	101.3	87.7	1.7	23.7	-0.3	-13.4
Electrical machinery	70.5	96.7	129.0	121.1	-4.5	37.2	33.4	-6.1
Transport equipment	...	...	...	...	6.3	38.6	15.4	-28.5
Other manufacturing industries	...	...	...	...	17.3	32.6	-14.2	3.1

Source: Central Bank of Uruguay.

^aPreliminary figures.

^bIncludes leather clothing.

^cDoes not include mining and quarrying.

Table 6

URUGUAY: VARIATION OF PRODUCTION BY INDUSTRIES ACCORDING TO PERCENTAGE OF OUTPUT EXPORTED IN 1980

Percentage of sales volume exported	Growth rates	
	1980	1981
Total	2.6	-3.2
0 and 25	0.7	-5.9
25 and 100	7.2	3.0
25 and 50	15.6	2.9
50 and 75	-3.0	-1.8
75 and 100	5.0	11.2

Source: ECLA, on the basis of official data.

Table 7

URUGUAY: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
Growth rates							
Exports of goods							
Value	0.9	46.8	8.2	12.2	14.9	34.3	14.8
Volume	16.8	45.0	-0.9	4.6	-11.8	19.6	15.0
Unit value	-13.6	1.2	9.2	7.2	30.2	12.3	-0.2
Imports of goods							
Value	14.0	8.6	28.0	3.4	64.3	43.0	-11.9
Volume	-6.3	6.7	27.8	1.3	33.3	12.4	-20.5
Unit value	21.7	1.8	0.2	2.0	23.3	27.3	10.9
Terms of trade (goods)	-28.2	-1.2	8.4	4.9	6.3	-10.7	-9.8
Indexes (1970 = 100)							
Terms of trade (goods)	75.4	74.5	80.8	84.7	90.1	80.4	72.5
Purchasing power of exports of goods	89.0	125.5	133.3	145.3	139.1	152.1	162.5
Purchasing power of exports of goods and services	98.5	119.5	136.1	149.4	163.5	169.5	177.1

Source: ECLA, on the basis of official data.

^a Preliminary figures.

(i) *Exports.* The increases of exports by 34% in 1980 and 15% in 1981 were due to the considerable expansion of sales of traditional export products in these two years (by 87% and 23%, respectively).

Outstanding among the traditional export products was meat, sales of which increased by 42% in 1981. This appreciable increase, which came on top of a still larger one (73%) registered the year before, caused the value of these exports to rise from around US\$ 100 million in 1979 to close to US\$ 250 million in 1981, so that meat once again became the main export product. Exports of wool, in contrast, which had doubled in 1980, grew by only 10% in 1981. In both cases, the increases in the volumes exported were still greater: the volume of beef exports increased by 51% to approximately 168 000 tons of carcass meat, while that of wool rose by 16% to the equivalent of some 87 000 tons of greasy wool. At the same time, however, the price of these products dropped by 6% and 5%, respectively (see table 8).

As in 1980, the growth rate of non-traditional exports continued to decline during the year. Thus, after the value of these exports had trebled between 1975 and 1979, its growth rate fell from 31% per year to 14% in 1980 and a little over 9% in 1981.

In 1981 there was a continued increase in exports of rice, fishery products, plastics, rubber manufactures and chemical products. Particularly noteworthy was the expansion of sales of rice (70%), the value of which came to more than three times that registered in 1977, rising to over US\$ 100 million and making this product the second most important non-traditional export. Although the growth rate of fishery products (19%) was less than in the previous two years, it was still sufficient to bring their sales up to six times the 1977 level. Plastics and rubber manufactures, for their part, grew by 25%, and although exports of chemicals and related goods increased by only 7%, they nevertheless amounted to double the level of three years before.

Apart from textile manufactures, which only grew 3% (although even so their value more than doubled between 1977 and 1981), the other non-traditional exports registered significant declines. Special mention may be made in this respect of exports of leather and leather manufactures, which went down by 4%; sales of minerals, ceramics and glass, which went down by 28%, and a considerable number of other products, several of which had grown at quite a high rate up to 1980 but abruptly declined in 1981 as a result of their lack of profitability, which discouraged their production, or else the closing of external markets through the application of protectionist measures (see table 8).

Finally, mention should be made of the importance which has been acquired by "other non-traditional exports", the value of which now amounts to over US\$ 150 million and has increased 4.5 times since 1977.

(ii) *Imports.* Although the value of total imports of goods went down by 12% in 1981, imports of consumer goods, whose relative weight in total imports rose from 3% to 15% between 1975 and 1981, grew by 40% in the latter year. There was a particularly striking increase of almost 100% in imports of consumer durables, which amounted to over US\$ 160 million.

In contrast, for the first time since 1976 imports of raw materials and intermediate goods went down (by close to 9%). This decline took place even though purchases of petroleum and fuels continued to increase during the year, albeit at a lower rate than in previous years (11%). The value of these imports of hydrocarbons came to a little over US\$ 500 million, or almost one-third of total imports (see table 9).

Imports of capital goods also suffered a sharp contraction (-17%), thus interrupting the tendency observed over the previous five years, during which the value of these imports increased almost five-fold.

The decline in imports in terms of volume was a good deal greater, due to the lower level of activity of the economy, especially in manufacturing and construction.

(b) *The balance-of-payments position and its financing*

The appreciable reduction in the merchandise trade deficit already mentioned above, when added to the services deficit of US\$ 74 million, gave a total trade deficit of almost US\$ 330 million, or almost half that registered in 1980 (see table 10).

Table 8
URUGUAY: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	686	788	1 059	1 215	100.0	100.0	14.9	34.3	14.8
Main traditional export products	249	223	416	513	78.0	42.2	-10.4	86.5	23.3
Meat	94	101	175	248	36.7	20.4	7.4	73.2	41.6
Wool	139	109	219	242	35.4	19.7	-21.6	101.2	10.1
Others	16	13	22	24	5.9	2.0	-18.7	66.9	9.7
Other exports (mainly non-traditional)	437	565	643	702	22.0	57.8	29.3	13.8	9.3
Fishery products	23	36	48	58	-	4.7	56.5	34.2	19.2
Rice	35	61	64	109	2.0	9.0	74.3	5.2	70.2
Foodstuffs, beverages and tobacco	28	25	33	32	1.7	2.6	-10.7	31.2	-4.0
Minerals, ceramics and glass	29	32	22	16	2.5	1.3	10.3	-31.3	-27.7
Products of the chemical and related industries	16	25	31	33	-	2.7	56.3	23.2	6.8
Plastic materials and rubber products	14	20	21	26	-	2.1	42.9	4.5	24.9
Manufactured leather and leather products	160	177	144	138	12.1	11.4	10.6	-18.7	-4.0
Textile products	57	71	87	90	2.7	7.5	24.6	23.0	2.7
Transport equipment	8	20	24	12	-	1.0	150.0	17.5	-48.9
Paper, paperboard and product thereof	5	9	13	11	-	0.9	80.0	40.0	-16.7
Iron, steel, machinery and electrical equipment	14	28	34	22	-	1.8	100.0	21.4	-34.7
Miscellaneous	48	61	122	156	0.9	12.9	27.1	100.7	27.8

Source: Central Bank of Uruguay.

^aPreliminary figures.

Table 9
URUGUAY: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	757	1 206	1 680	1 600	100.0	100.0	59.3	39.3	-4.8
Consumer goods	42	79	178	248	10.4	15.5	89.4	126.2	39.8
Raw materials and intermediate goods	610	954	1 227	1 123	64.9	70.1	56.4	28.7	-8.5
Petroleum and fuels	210	290	455	503	14.6	31.5	38.4	56.9	10.6
Others	400	664	772	620	50.3	34.6	61.3	19.6	-19.7
Capital goods	106	174	276	229	24.7	14.3	64.0	58.2	-17.0

Source: Central Bank of Uruguay.

^aPreliminary figures.

Over the last two years, net payments of profits and interest have stayed at around US\$ 100 million. Thus, the current account deficit went down from over US\$ 716 million in 1980 to US\$ 427 million in 1981, i.e., by 40%. The current account imbalance, which amounted to the equivalent of 47% of exports of goods and services in 1980, was equal to only one-quarter of these in 1981.

During the year, there was a net inflow of capital of approximately US\$ 460 million, that is to say, US\$ 350 million less than in 1980, but even so this was enough to cover the current account deficit and increase reserves by around US\$ 35 million. The international reserves have increased without interruption since 1976, although the increase registered in 1981 was the lowest since that date, the average annual rise in the five-year period 1976-1980 being US\$ 177 million (see table 10).

(c) *Evolution of the real exchange rate*

As in 1980, the monetary authorities continued during the year under consideration to fix the exchange rate for the next six months in advance through a publicly circulated table.

The nominal exchange rate with respect to the dollar rose by approximately 19% in 1981 from an average of 9.16 new pesos per dollar the year before to a rate of 10.87 new pesos per dollar. In contrast, there was a drop in the exchange rate with respect to other currencies, among them those of several European countries with which Uruguay maintains active trade relations, which lost value with respect to the dollar in the last year.

The increase in domestic prices (34% in consumer prices and 23% in wholesale prices), which was higher than in most of Uruguay's trading partners, and the marked appreciation of the United States dollar with respect to the currencies of almost all the Western European countries led to a decline of the order of 5% in the effective real exchange rate for exports in 1981, while that for imports remained practically unchanged (see table 11 and figure 2).¹

In the period 1978-1981, the real exchange rate for exports went down by 29%, that is to say, the Uruguayan peso was revalued to this extent with respect to the currencies of the countries to which its exports are sold, thus causing them to lose competitiveness. The real exchange rate for imports, for its part, went down by around 10% in the same period, making them cheaper and encouraging their expansion.

Through the policy of announcing the exchange rate and rate of devaluation in advance, it was thought that better conditions would be created for facilitating the entry of capital, thus tending to

¹ For the methodology and sources used in these calculations, see the Statistical Appendix at the end of Part Two of this Survey.

Table 10
URUGUAY: BALANCE OF PAYMENTS
(Millions of dollars)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	551	696	809	913	1 198	1 526	1 714
Goods FOB	385	565	612	686	788	1 059	1 215
Services ^b	166	131	197	227	410	468	499
Transport and insurance	27	28	36	44	72	89	98
Travel	98	68	117	137	268	298	312
Imports of goods and services	676	705	914	970	1 505	2 144	2 043
Goods FOB	494	537	687	710	1 166	1 668	1 470
Services ^b	182	169	228	260	339	476	573
Transport and insurance	81	78	80	95	124	161	158
Travel	62	60	96	109	136	203	293
Merchandise balance	-109	28	-75	-24	-378	-610	-255
Trade balance	-125	-9	-106	-57	-306	-618	-329
Profits and interest	-71	-72	-68	-77	-58	-100	-98
Profits	-4	-	-2	-	-	-	-
Interest received	4	7	12	18	50	68	111
Interest paid	-71	-79	-77	-95	-108	-168	-209
Unrequited private transfer payments	-1	-1	2	1	2	2	-
Balance on current account	-198	-82	-172	-133	-363	-716	-427
Unrequited official transfer payments	8	9	5	6	6	7	-
Long-term capital	135	77	101	152	359	404	...
Direct investment	-	-	66	129	216	289	...
Portfolio investment	110	33	21	-9	-31	-7	...
Other long-term capital	25	45	14	32	174	122	...
Official sector ^c	8	5	-	38	154	108	...
Loans received	81	64	52	103	163	181	...
Amortization payments	-55	-52	-49	-57	-18	-66	...
Commercial banks ^c	-5	4	-	-2	-3	5	...
Loans received	-	4	-	-	-	7	...
Amortization payments	-5	-	-	-2	-2	-2	...
Other sectors ^c	22	36	13	-4	23	9	...
Loans received	29	45	36	53	41	26	...
Amortization payments	-7	-9	-23	-57	-18	-17	...
Basic balance	-54	4	-66	25	2	-305	...
Short-term capital	31	82	203	-54	94	311	...
Official sector	19	9	16	-9	9	-23	...
Commercial banks	26	-36	74	-39	128	307	...
Other sectors	-15	110	113	-7	-42	26	...
Errors and omissions (net)	-38	-13	42	159	-5	90	...
Balance on capital account	136	156	351	262	453	811	462
Global balance ^d	-62	73	179	129	91	95	35
Total variation in reserves ^d (minus sign indicates an increase)	44	-70	-159	-131	-154	-177	-35
Monetary gold	-	-	-1	-10	-46	-84	1
Special Drawing Rights	13	-2	-6	-5	-20	1	-10
IMF reserve position	-	-	-	-22	-	-13	1
Foreign exchange assets	19	-77	-98	48	-81	-52	-27
Other assets	-27	-19	-28	-24	-9	-29	-
Use made of IMF credit	39	28	-26	-119	-	-	-

Source: 1975-1980: International Monetary Fund, *Balance of Payments Yearbook*; 1981: ECLA, on the basis of official data.

^a Preliminary figures.

^b Services also include other official and private transactions, but not profits and interest.

^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^d The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

reduce domestic interest rates. As in 1980, however, this objective was only partially achieved because of the uncertainty existing as regards the possibility of maintaining this policy, and consequently considerable differences persisted between domestic and external rates of interest because of risk premiums.

(d) *External indebtedness*

The rapid increase in total external indebtedness continued in 1981 for the third consecutive year. Thus, after having remained stable at around US\$ 1 200 million between 1976 and 1978, indebtedness expanded by 74% in the two-year period 1979-1980 and rose a further 45% in 1981 to over US\$ 3 100 million (see table 12).

The biggest growth (51%) was registered in the financial sector, and particularly in the private commercial banks, whose indebtedness rose from US\$ 752 million to US\$ 1 237 million. In the other sectors, the debt increased by 41%. The external public debt rose by 30% to slightly over US\$ 1 500 million, while that of the private sector almost doubled to nearly US\$ 430 million. The disbursements made by the public sector mainly went to finance the Palmar hydroelectric project.

Despite the significant increase in the external debt in 1981, its servicing only rose by 13% to US\$ 300 million. In 1980 it had increased by 64% and its magnitude as a percentage of exports of goods and services rose from 14% to 18%: a proportion which was maintained in 1981. Nevertheless, these figures are a good deal lower than those registered in earlier years, when, for example, debt servicing came to represent 38% of total exports in 1978.

4. Prices, wages and employment

(a) *Evolution of prices*

During 1981 the slackening in the rate of inflation, which had already been observed in 1980, became more marked. The consumer price index, which had increased by as much as 83% in 1979 (December-December), grew by only 43% in 1980 and by only a little over 29% in 1981. Indeed, in the last quarter of the latter year the growth rate of prices sank to only 16% per year. This steady

Table 11

URUGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS^a

(1980 = 100)

Annual averages	Exports	Imports
1970	125.5	95.5
1971	115.2	88.1
1972	143.2	108.0
1973	122.2	93.0
1974	110.8	96.3
1975	130.2	108.4
1976	136.5	117.6
1977	136.2	115.9
1978	133.8	112.0
1979	109.9	97.9
1980	100.0	100.0
1981	95.3	100.4

Source: Statistical Appendix.

^aThese indexes were calculated on the basis of the sum of the real exchange rate indexes with respect to the various foreign currencies, weighted by the share of these currencies in Uruguay's total exports or imports (as appropriate). See the Statistical Appendix at the end of Part Two of this Survey.

Figure 2

URUGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE
RATE INDEXES FOR EXPORTS AND IMPORTS

(1980 = 100)



Source: Statistical Appendix.

Table 12

URUGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1976	1977	1978	1979	1980	1981 ^a
Total external debt	1 135	1 320	1 240	1 682	2 153	3 129
Public and State-guaranteed						
private debt	962	1 028	910	1 012	1 179	1 464
Private debt not guaranteed						
by the State	173	292	330	670	974	1 665
External debt servicing	229	168	343	165	270	304
Capital	150	93	248	58	105	50
Interest	79	75	95	106	165	254
External debt servicing as a percentage						
of exports of goods and services	32.9	20.8	37.6	13.8	17.7	17.7

Source: Central Bank of Uruguay.

^aPreliminary figures.

Table 13

URUGUAY: EVOLUTION OF DOMESTIC PRICES

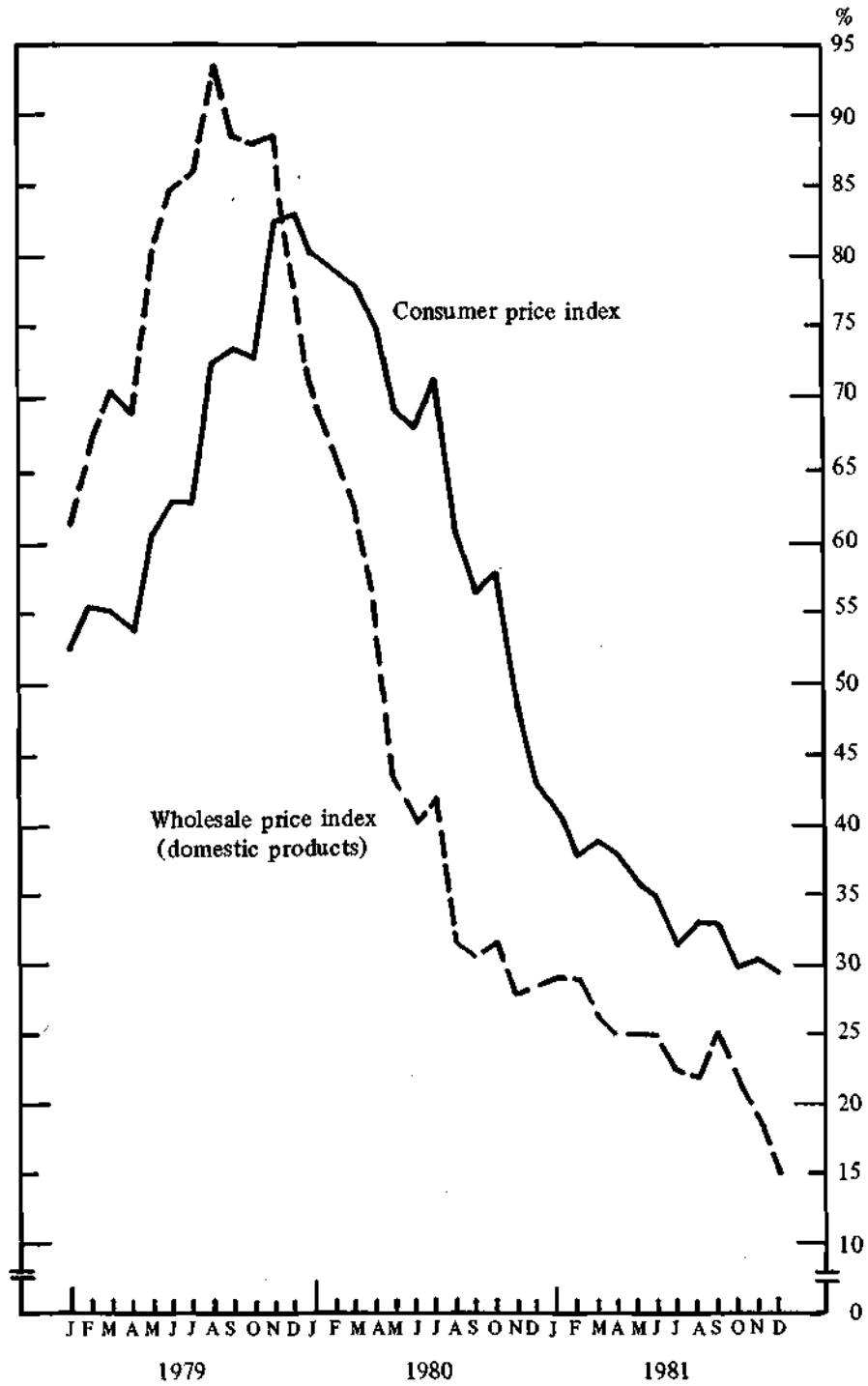
(Percentages)

	1977	1978	1979	1980	1981
Variation between annual averages					
Consumer price index	58.2	44.5	66.8	63.5	34.0
Food	64.0	44.5	70.9	57.9	25.6
Clothing	46.8	39.6	72.5	52.3	23.3
Housing	59.3	54.7	58.9	77.8	51.9
Miscellaneous	52.4	37.6	64.5	65.6	35.9
Wholesale price index	50.3	48.6	80.4	41.8	23.4
(domestic products)					
Agricultural products	52.1	78.0	102.6	18.7	9.8
Crop-farming products	35.5	81.5	58.8	49.9	13.4
Livestock products	65.9	75.7	133.5	3.8	6.9
Manufactured products	49.8	40.2	72.4	51.6	28.0
December to December variation					
Consumer prices index	57.3	46.0	83.1	42.8	29.4
Food	59.5	48.4	86.0	33.5	25.2
Clothing	46.6	39.5	95.2	27.7	18.8
Housing	66.5	45.6	78.8	63.7	42.9
Miscellaneous	50.1	44.9	76.9	47.9	26.3
Wholesale price index	44.8	59.6	77.1	28.6	14.9
(domestic products)					
Agricultural products	55.8	92.0	63.4	16.7	5.2
Crop-farming products	51.0	86.2	39.3	68.3	14.2
Livestock products	59.1	95.6	78.0	-7.9	-2.7
Manufactured products	41.7	49.3	82.7	32.9	18.1

Source: Central Bank of Uruguay and Statistics and Census Office.

Figure 3

URUGUAY: TWELVE-MONTHLY VARIATIONS IN DOMESTIC PRICES



Source: ECLA, on the basis of official data.

decline in the levels of inflation took place against a background of free prices, since only a very small group of goods continued to be subject to price controls (see table 13 and figure 3).

Since 1979, the economic policy has tried to do away with excessive inflationary expectations by the advance announcement of the exchange rate, and greater openness of the economy to the exterior has been promoted with a view to expanding the supply of goods. In line with this criterion, the importation of goods which compete with domestic production has continued to be facilitated, and further steps have been taken to eliminate redundant protection. All this has undoubtedly helped to reduce inflationary pressures, but in 1981, and especially in the last quarter of the year, its effects have included not only a moderate evolution of the consumer price index, but also a decline in demand, as already noted in section 2 of this article.

All the major components of the consumer price index increased less than the general average, except for housing which rose by 43%. The main reason for the latter phenomenon is that the official regulations governing rents permit their annual adjustment through a special index, the Readjustable Rent Unit (URA), which is calculated in line with the evolution of wages in previous periods. Wages, like prices, have tended to grow less rapidly with time, that is to say, they increased more rapidly in the immediate past. With a view to correcting the resultant distortion in rents, efforts have been made to establish a ceiling, based on the latest variations in consumer prices.

Clothing was the item which registered the smallest price increase (19%), this being explained both by the decline in demand and by the smaller inflow of tourists from Argentina.

The index of food prices rose by 25% in 1981. The wholesale prices of crop farming products increased by 14% during the year, while those of livestock products went down by almost 3% (see table 13).

As in the previous year, the wholesale prices of domestic products increased much less than the consumer prices, and furthermore, their growth rate went down much more rapidly than that of consumer prices during the year (see figure 3). These differences are to be explained by the different weightings of tradeable and non-tradeable goods in the two indicators. The greater weight of products of agricultural origin is particularly noteworthy in the case of the wholesale price index.

(b) *Wages and salaries*

In 1981 the general index of nominal average wages increased by close to 44%. The rise in public sector wages was practically the same as in the private sector (43% and 45%). Due also to the smaller variation between the annual averages of domestic prices, the increase in real wages for wage-earners as a whole thus came to 7.5%, which is the first real increase in general wages in the

Table 14

URUGUAY: EVOLUTION OF WAGES

(Variation between annual averages)

	1977	1978	1979	1980	1981
Nominal wages^a	39.0	39.6	52.6	64.4	43.6
Public sector	40.6	40.4	54.5	74.6	42.7
Private sector	37.6	38.9	50.8	54.6	44.6
Real wages^b	-11.9	-3.6	-8.1	-0.4	7.5
Public sector	-10.9	-3.0	-7.1	5.9	7.1
Private sector	-12.8	-4.1	-9.0	-6.3	7.9

Source: Statistics and Census Office.

^aCalculated on the basis of the minimum increases decreed by the Government up to October 1980 and the wages actually paid thereafter.

^bDeflated by the consumer price index.

last five years. In the case of public sector wages, the rise was a little over 7%, representing a total improvement of over 13% in the last two years, but this percentage was still not enough to make good the deterioration of 20% suffered in the previous three years. Moreover, although real wages in the private sector rose by almost 8%, their level was still 23% below that prevailing in 1976 (see table 14).

(c) *Employment*

In 1981, and especially in the first half of the year, employment levels continued to improve, as had been taking place since 1977, despite the rapid slackening of economic activity in 1980 and its virtual decline in 1981. The unemployment rate in Montevideo, which had reached a peak of 12.8% in 1976, gradually went down to 6.7% in 1981, although in the second half of the year it rose again to 7.5% as a result of the increase in the rate of participation (see table 15).

Table 15

URUGUAY: EVOLUTION OF UNEMPLOYMENT IN MONTEVIDEO

	Annual averages			1980		1981			
	1977	1978	1979	Half-year		Quarter			
				I	II	I	II	III	IV
Rate of unemployment	11.8	10.1	8.4	7.7	7.0	5.9	5.7	7.0	7.9
Unemployment rate, excluding those seeking work for the first time	7.9	6.7	5.8	5.1	4.9	4.0	3.7	4.7	5.1

Source: Statistics and Census Office.

5. Monetary and fiscal policies

(a) *Monetary policy*

As in previous years, the basic objective of the monetary authorities was to reduce the domestic rate of inflation to a level comparable with that of international prices. The exchange rate continued to be considered as the most suitable instrument for this purpose.

Under the policy line followed, the essential idea is that in a small, open economy like that of Uruguay with a fixed exchange rate, there is a direct causal relationship between prices and money. Consequently, the amount of money is determined endogenously. The ruling assumption is that any discrepancy between the supply and demand of money should be settled at the balance-of-payments level. The surplus money is directed to the goods market or the financial market. In the first of these cases (on the basis that redundant protection has now been practically completely eliminated), then the international settlement of the prices of tradeable goods comes into operation and excess demand is eliminated through the trade deficit.

In the second case, the demand for foreign exchange generates a deficit on the capital account. In both cases, the money returns to the Central Bank.

The exchange rate instrument continued to be handled through a system of advance announcements of the rate, with a time horizon of six months. The authorities continued to reject the use of traditional-type policy instruments for monetary control because they considered that this would only help to generate distortions in the financial market, without any certainty that the liquidity of the economy would actually be controlled. Thus, two years earlier the authorities began to abandon the system of legal bank reserve requirements and open market operations.

Rediscounting to the private banks had also already ceased to be used as an instrument. From the foregoing, it may be inferred that the Central Bank played a completely neutral role as regards the creation of the monetary base.

The monetary liabilities of the monetary authority grew by 4.4%, essentially because of an increase of 21% in the net international reserves, since the net domestic credit of the Central Bank went down appreciably (-185 million pesos in 1980 and -1 502 million in 1981). It should be noted, however, that credit to the public sector grew by 75% because of a substantial contribution to the National Treasury.

The M_1 money supply grew by 12.5%, which represented a decline both in real terms and in relation with previous years (66%, 89% and 51% respectively in the previous three years) (see table 16).

Table 16
URUGUAY: MONETARY BALANCE

(Billions of pesos)

	Balance at end of year				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Money	3.1	5.8	8.7	9.8	65.5	88.5	50.7	12.5
Currency outside banks	1.8	3.2	5.1	6.1	62.5	75.9	60.1	20.4
Demand deposits	1.3	2.6	3.6	3.7	69.9	106.4	39.3	1.4
Factors of expansion	15.7	27.0	43.5	59.5	99.2	72.1	61.0	37.1
Foreign assets (net)	6.1	8.0	9.8	12.3	157.9	31.0	22.0	26.5
Domestic credit	9.6	19.0	33.7	47.2	74.0	98.4	77.4	40.1
Government (net)	1.2	0.8	1.2	2.3	1.7	-44.4	44.7	88.6
Official entities	-0.4	-0.8	-1.9	-0.6				
Private sector	8.8	19.1	34.3	45.5	81.4	116.3	79.7	32.6
Factors of absorption	12.3	21.2	34.7	49.7	111.9	71.4	63.9	43.2
Quasi-money (savings and time deposits)	2.7	6.3	13.4	17.7	168.7	130.2	112.9	32.3
Deposits in foreign currency	4.6	7.8	12.2	22.0	34.6	69.4	56.2	79.7
Other items (net)	5.0	7.1	9.1	10.0	71.9	41.2	28.6	10.3

Source: Central Bank of Uruguay.

^aPreliminary figures.

Table 17
URUGUAY: BANK INTEREST RATES

	Nominal interest rate on loans ^a	Rate of inflation ^b	Real interest rate
1980			
March	67.4	78.1	-6.0
June	68.3	67.8	0.3
September	65.6	56.5	5.8
December	65.1	42.8	15.6
1981			
March	63.7	38.7	18.0
June	57.4	34.8	16.8
September	58.6	32.7	19.5
December	59.8	29.4	23.5

Source: ECLA, on the basis of data supplied by the Central Bank of Uruguay.

^aMost frequent normal rates at end of months indicated in the five most representative banking institutions in respect of fixed-term transactions for up to six months in national currency.

^bVariation in consumer price index over past twelve months.

Savings and time deposits in national and foreign currency, for their part, grew by 32% and 80% respectively. This may be attributed to the sharp rise in real terms in interest rates on deposits in both national and foreign currency, since because of the rises in domestic prices of the order of 30%, interest rates on deposits reached levels of 46% for deposits in national currency and 15% for those in foreign currency (both as an annual average for terms of up to six months), with an average rate of devaluation during the year of almost 19%. Table 17 shows the rapid increase registered by real interest rates on loans as from December 1980.

(b) *Fiscal policy*

The Treasury accounts turned in a small deficit of 117 million pesos in 1981, which did not amount to even 1% of total expenditure. Central government income totalled almost 21 300 million pesos, while total expenditure came to close on 21 400 million (18 800 million pesos of

Table 18

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
1. Current income	4 350	8 424	14 955	21 260	48.0	93.7	77.5	42.2
Internal taxes	3 256	5 705	10 695	14 804	55.6	75.2	87.5	38.4
On production, consumption and transactions	3 067	5 221	9 287	13 514	49.9	70.2	77.9	45.5
Value added	1 526	2 751	5 677	8 515	52.3	80.2	106.3	50.0
Fuels	582	973	1 661	2 117	35.0	67.1	70.8	27.4
Tobacco	297	459	912	1 251	45.2	54.7	98.9	37.1
Others	662	1 038	1 036	1 631	66.6	56.8	-	57.3
On income	569	1 038	2 363	2 427	70.8	82.4	127.7	2.7
On wealth	211	282	724	1 094	22.7	33.7	157.0	51.0
Others	59	80	116	116	5.4	37.1	44.2	-
Less: Documents received	-527	-717	-1 475	-2 236				
Adjustments ^b	-123	-199	-320	-111				
Taxes on foreign trade	550	1 597	2 753	3 199	29.7	190.2	72.4	16.2
Other income	544	1 123	1 507	3 257	29.2	106.3	34.3	116.1
2. Current expenditure	4 042	7 260	13 080	18 817	44.6	79.6	80.2	43.9
Wages and salaries	1 948	282	5 980	8 800	42.0	68.5	82.2	47.1
Contributions and assistance to the social security system	665	1 117	3 464	4 866	46.5	67.9	210.1	40.5
Purchase of goods and services	765	1 397	2 466	3 766	67.4	82.6	76.6	52.7
Other current expenditure ^c	664	1 464	1 170	1 385	29.4	120.4	-20.1	18.3
3. Saving on current account (1 - 2)	308	1 164	1 875	2 443	116.9	278.4	61.1	30.3
4. Investments	708	1 040	1 799	2 560	85.3	46.9	73.0	42.2
5. Total expenditure (2 + 4)	4 750	8 300	14 879	21 377	49.5	74.7	79.3	43.7
6. Fiscal deficit or surplus (1 - 5)	-400	124	76	-117				
7. Financing								
Net credit by Central Bank/BPOC	159	205	-168	396				
Issue of securities (net)	90	-363	-313	-49				
Other	151 ^d	34	405 ^e	-230 ^e				

Source: Contaduría General de la Nación. The figures for the internal tax components come from the Tax Department.

^a Preliminary figures.

^b Discrepancy between treasury information and tax office information.

^c Including transfer payments, interest payments on the public debt and affected income.

^d Including external financing of the PALMAR Joint Commission in the amount of 134 million pesos.

^e Including variations in Treasury position and uncleared checks.

current expenditure and 2 600 million of investment). This imbalance, which occurred after two years of surpluses, was due to an increase of 44% in total expenditure, making it slightly larger than income (see table 18).

In 1981, the growth rates of both current government income and current and capital expenditure slowed down markedly compared with 1980 and 1979, if only current income and expenditure are taken into account. The slackening of economic activity and of the growth rate of imports helped to check a larger expansion in income. Among tax revenue, the most important items were the value added tax (41%), the tax on fuels (10%), income and wealth taxes (17%) and duties on external trade (18%). All of these had much lower growth rates in 1981 than in previous years, the biggest decline being in revenue from income tax and taxes on external transactions. The tax burden with respect to the gross domestic product increased from 13% to close to 15% between 1979 and 1980, and in 1981 it rose to slightly over 15% (see table 18).

Expenditure in connection with current operations and investments increased slightly faster than current income, so that although current saving continued to expand, it went down as a percentage of expenditure. Since 1979, this proportion has gone down from 14% to 11.4%.

Among government consumption expenditure, wages and salaries increased by 47% and purchases of goods and non-personal services rose by 53%, the latter being the highest growth rate of all the components of expenditure. Transfers to social security bodies, which totalled approximately 4 900 million pesos, also continued to have considerable weight. Since early 1980, various reductions have been made in the workers' and employers' social security contributions, as part of a new policy to finance the social security system aimed at replacing its direct financing with a system based on taxes paid by the whole community.

VENEZUELA

1. Recent economic trends: Introduction and summary

Against the background of a world economy which evolved more unfavourably than in previous years, the government continued to apply during 1981 the economic policies put into effect since 1979, although this time important changes were made in public investment expenditure, the granting of subsidies and interest rate policy.

As will be recalled, the Government originally formulated these policies with the aim of correcting the structural distortions caused, in addition to all the problems typical of a situation of underdevelopment, by the boom in petroleum income since 1974. In defining the policies, account was taken of the particularly significant role played by the State in the economic process in Venezuela and also the limitations faced in the sphere of public administration in meeting the demands posed by the handling of abundant financial resources and the increased responsibilities devolving on the public sector in the productive field.

It was also considered that the big investments made by the State in order to exploit new mineral and energy resources, to expand the industrial production capacity and to adapt and amplify the systems providing basic services and social assistance had taken the form of highly capital-intensive advanced-technology projects, and this process, despite its implicit features of modernization, had given rise to fresh structural distortions in the production system. Thus, on the one hand, national industry was not fitted to satisfy the demand for high-technology capital goods, tools and equipment raised by these investments. Consequently, despite the rapidity with which the industrial sector had expanded, it continued to be devoted primarily to the provision of traditional consumer goods, raw materials and equipment whose manufacture did not involve complex technology. At the same time, it was considered that the type of investments made were not compatible with the need to give immediate employment to an active population which was growing very strongly and whose expansion in the cities was further increased by vigorous migration from rural to urban areas and the arrival of considerable groups of workers from neighbouring countries. Furthermore, because of the nature of the technologies used in the conception and execution of these investments, it had been necessary to resort to foreign technical assistance in order to carry out the technical feasibility studies, design and engineering work, installation and starting-up of the investment projects, without this having significantly promoted national development in these fields.

On the other hand, as the extraordinary abundance of revenue generated by the oil price boom was rapidly transferred to the population through public current and investment expenditure, this gave rise to an enormous increase in monetary liquidity which greatly favoured the appearance of inflationary pressures. In order to control the inflationary process, strict price controls were established, substantial subsidies were given to domestic producers (and in some cases also to importers), and the supply of goods was increased through heavy purchases abroad. Largely because of the extraordinary expansion in the latter, the merchandise trade balance suffered a striking turnaround from a surplus of US\$ 7 200 million in 1974 to a deficit of US\$ 2 100 million in 1978.

These policies introduced fresh distortions into the domestic public and private production and distribution systems. Private industrial and agricultural enterprises were in many cases compelled to seek profitability on the basis of subsidies, customs exemptions and tariff protection, since in the short term they could not compensate for the rise in the cost of their primary inputs

and factors by increasing their productivity or the prices of their products, many of which were subject to control. The State enterprises, too, had to face this same situation of costs and prices which, together with their investment needs, made them have greater recourse to the use of credit, thus bringing about an appreciable increase in the domestic and external public debt.

In order to control inflationary tendencies and put public and private enterprises in a situation where they could achieve greater economic efficiency and expand their production capacity, the Government designed a restrictive monetary and fiscal policy, to be put into effect in the two-year period 1979-1980. This made it possible to bring down the growth rate of the means of payment from 25% in 1977 and 21% in 1978 to less than 7% in 1979 and less than 14% in 1980. At the fiscal level, physical investment expenditure was reduced from an average of 6100 million bolívares in the two-year period 1977-1978 to less than 4000 million in the following two years. Furthermore, and as central support measures for these policies, steps were also taken to make prices more realistic and reduce tariffs. Thus, price controls and production subsidies were eliminated in the case of a large number of goods, the levels of a substantial proportion of the tariff categories were lowered, most of the customs exemptions were cancelled, and except in special cases the requirement for prior import licenses was also eliminated. At the same time, some subsidies to production and trade were suspended.

As might be expected, the application of these measures led to a marked slackening in the growth rate of economic activity. Thus, after having increased at an average rate of 7.5% in 1976 and 1977 and risen by 3% in 1978, the gross domestic product stagnated almost completely in 1979 and actually went down slightly in 1980. Although in 1979 and 1980 the December-December variation in consumer prices remained close to 20%, it proved possible to reverse the balance-of-payments current account situation, which, thanks to the fresh rises in the international price of petroleum and the containment of imports, went from a deficit of US\$ 5 500 million in 1978 to a surplus of almost US\$ 4 300 million in 1980. As from 1979 it also proved possible to reverse the downward trend followed by the international reserves in the period 1977-1978 (see table 1).

Generally speaking, similar tendencies persisted in 1981. Thus, the level of real activity of the economy more or less stagnated, for as a result of the application of the stabilization policy, the incidence of exogenous factors connected with the situation of the world petroleum market and the high interest rates on international markets, and the excessive rain which severely affected the agricultural sector, the gross domestic product rose by less than 1%. Consequently, the per capita product declined for the fourth consecutive year and stood 10% lower than in 1977. The virtual stagnation of economic activity also led to a slight increase in the rate of unemployment. On the other hand, it proved possible in the course of the year to reduce inflationary pressures, to bring down the growth rate of the means of payment and to secure a very marked reduction in the fiscal deficit. At the same time, a considerable balance-of-payments current account surplus was achieved for the third consecutive year, the international reserves grew significantly, and the external debt was kept at a similar level to that reached in 1980 (see table 1 and figure 1).

As in 1980, negative influences which contributed to the very slow evolution of the gross domestic product were the reduction in petroleum activity, the declines for the third year running in construction and commerce, and (in the last year) the drop in mining activity. The product of the other economic activities increased by around 2% on average, although manufacturing production grew more slowly than in the last decade.

Even though in 1981 there was a marked reduction in the growth rate of the value of exports of goods and services, while the value of imports went down only slightly, the trade balance nevertheless generated a substantial surplus of over US\$ 3 700 million. After more than doubling in the previous two years, the value of petroleum exports rose by only 4% in 1981 but nevertheless exceeded US\$ 19 billion for the first time. This increase was due entirely to the rise of around 12% in the sale price of petroleum, since the physical volume of exports of crude stagnated, and that of petroleum products went down by over 20%. On the other hand, sales of iron ore and aluminium totalled US\$ 580 million, registering increases of 14% and 4%, respectively. Imports of goods and services, for their part, came to US\$ 17 200 million, 9.5% more than in 1980.

As a result of the trade surplus and the net income received from interest, the balance-of-payments current account closed with a surplus of almost US\$ 4 100 million. Thanks to this, the international reserves rose by over US\$ 2 500 million in spite of the outflow of capital brought about by the high interest rates prevailing in external financial centres.

In contrast with 1980, when the monetary base rose by almost 8% and the means of payment expanded by close to 14%, in 1981 the latter grew by only 7% although the monetary base rose by 16%. The very intense expansion shown for the third year running by time deposits, however, led to an increase of 20% in monetary liquidity. A decisive factor behind this increase in time deposits was the policy adopted by the monetary authorities in August of freeing domestic interest rates.

Table 1

VENEZUELA: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
A. Basic economic indicator							
Gross domestic product at market prices (billions of 1970 dollars)	16.8	18.2	19.4	20.0	22.2	20.0	20.1
Population (millions of inhabitants)	13.1	13.6	14.1	14.6	15.1	15.6	16.2
Per capita gross domestic product (1970 dollars)	1 278	1 337	1 379	1 373	1 338	1 278	1 243
Growth rates							
B. Short-run economic indicators							
Gross domestic product	5.9	8.4	6.8	3.2	0.9	-1.2	0.6
Per capita gross domestic product	2.2	4.6	3.1	-0.4	-2.5	-4.5	-2.7
Gross domestic income ^b	-3.7	6.2	5.2	0.2	9.1	4.3	-0.8
Terms of trade (goods and services)	-6.2	0.8	-0.4	-11.0	29.8	25.8	2.9
Current value of exports of goods and services	-19.5	3.5	5.0	-3.6	52.6	33.5	4.8
Current value of imports of goods and services	41.6	30.0	40.4	15.5	-6.4	12.0	9.5
Consumer prices ^c							
December - December	8.0	6.9	8.1	7.0	20.5	19.6	10.8
Variation between annual averages	10.2	7.7	7.8	7.1	12.3	21.6	16.1
Money	...	12.5	25.0	21.0	6.7	13.7	7.1
Wages and salaries ^d							
Rate of unemployment ^e	7.2	6.0	4.8	4.7	5.4	5.9	6.3 ^f
Current income of government	-3.9	-6.8	-6.3	-6.2	24.8	25.2	47.8
Total expenditure of government	9.6	11.8	13.7	1.0	-0.4	43.0	28.9
Fiscal deficit/total expenditure of government	26.4 ^h	9.2	20.2	21.7	1.8	14.0	1.4
Millions of dollars							
C. External sector							
Trade balance (goods and services)	2 245	442	-2 811	-5 180	934	4 273	3 740
Balance on current account	2 201	476	-2 956	-5 513	545	4 309	4 060
Variation in international reserves	2 671	73	-171	-1 834	1 104	61	2 530
External debt ⁱ	1 391	3 290	4 715	7 252	8 215	9 655	9 732

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bGross domestic product plus terms-of-trade effect.

^cCost-of-living index for the Caracas metropolitan area.

^dAverage monthly family income.

^eFirst half of year with respect to same period in 1980.

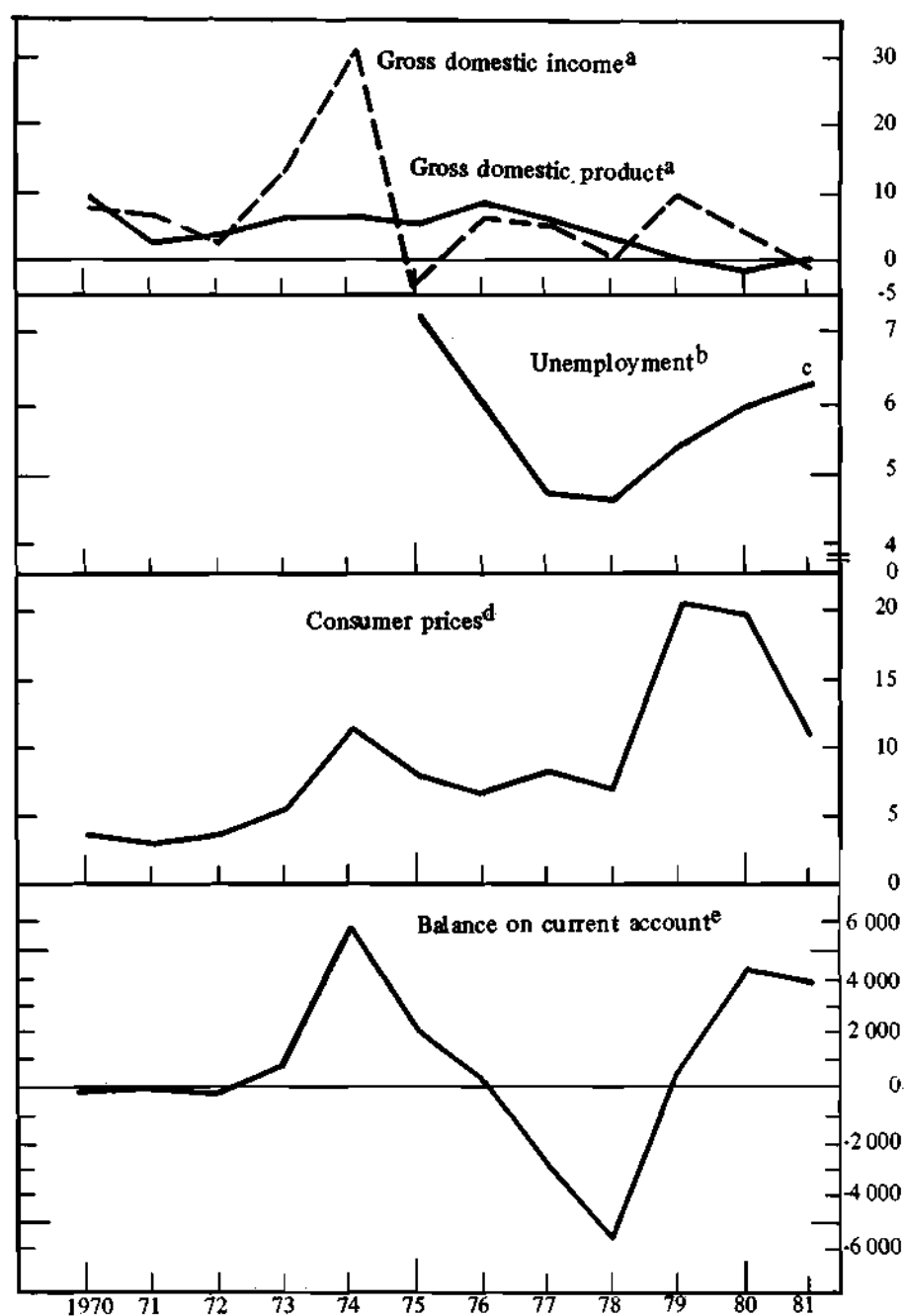
^fPercentage.

^gFirst half of year.

^hSurplus.

ⁱDisbursed external public debt (excluding the floating debt).

Figure 1
VENEZUELA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate for whole country.

^cFirst half of year.

^dPercentage variation, December - December.

^eMillions of dollars.

In the area of fiscal policy, after the big efforts made in the period 1978-1979 to contain the increase in public spending, in 1981 the growth rate of current spending speeded up once again, while capital expenditure was 31% greater than the year before and more than double average investment expenditure in the period 1977-1979. Despite this increase in expenditure, however, the fiscal deficit was 87% lower than that registered in 1980 and represented only a little over 1% of total central government spending, thanks to the 56% increase in fiscal revenue from the petroleum sector.

In 1981 the authorities continued to make efforts to limit, control and order the process of public indebtedness. These efforts were reflected in the Organic Law on Public Credit, which—except for some explicitly specified special cases—prohibits short-term indebtedness operations on the part of public bodies. This law also ordered the reconversion of the short-term debt contracted by public bodies and empowered the Government, to this end, to carry out public credit operations in the amount of 55 700 million bolívares in order to pay off commitments contracted by such bodies before 30 June 1981 with financial institutions, contractors and suppliers. The Government was also authorized to carry out other public credit operations in the amount of 5 500 million bolívares in order to pay off similar commitments contracted by the bodies in question between the above-mentioned date and 31 December 1983.

With the same purpose of bringing some order into the process of public indebtedness, a Committee for the Financial Co-ordination of State Credit Transactions was set up and made responsible for centralizing the contracting of credits, standardizing the procedures, terms and documentation of the loans, and thus achieving greater access and better treatment on financial markets.

In the more general field of global economic policies, and after a process of participation, dialogue and consultation between the technical and political levels, the Sixth National Five-Year Plan, made up of a global plan and twelve sectoral plans, was put into effect. For the first time, this plan also includes a national regional development and territorial planning strategy comprising nine regional plans.

2. Trends in economic activity

(a) *Total supply and demand*

In 1981 the total supply of goods and services continued to stagnate at the low level registered the year before, which was almost 5% below that of 1978. This poor performance was due to the fact that the very slight increase in the gross domestic product was almost completely cancelled out by a further, although somewhat smaller, drop in the volume of imports. As a result, the import coefficient went down for the third consecutive year. Because of its extraordinary rise in the period 1974-1978, however, when the volume of imports greatly increased, this coefficient was still very high (32%) and was almost double that registered 10 years before (see table 2).

Among the different components of demand, the volume of exports of goods and services went down for the second year running by around 8%, thus continuing the downward trend of the volume of exports which began in 1971 and was interrupted only in 1973 and in the two-year period 1978-1979.

Domestic demand, for its part, rose by less than 1% after having sharply declined in 1979 and suffered a further slight decline in 1980. Although no figures on the evolution of its individual components are available, both consumption and investment probably virtually stagnated in 1981, for personal consumption must have been affected by the 1% reduction in per capita income, and especially by the still greater drop in wages and salaries, while the increase in the investment expenditure of State enterprises and general government¹ was probably cancelled out by the drop in private sector capital formation.

¹ The current value of these investments rose from 27 100 million bolívares in 1980 to 33 100 million in 1981, while the value of real general government investment rose from almost 4 400 million bolívares to close to 6 800 million.

(b) *Evolution of the main sectors*

In 1981 the total production of goods once again went down because of the declines in petroleum production, mining and construction and the lower growth rates registered by manufacturing and agriculture. In contrast, basic services expanded at a similar rate to 1980, while the product of other services recovered from the slight drop suffered that year (see table 3).

(i) *The petroleum sector.* In 1981 there was a continuation of the systematic decline suffered by the petroleum industry since 1974, which was only interrupted in 1979, when the sector grew by almost 9%. Production of crude went down by 3% to 770 million barrels, which is 37% below the 1974 production and equivalent to average production of 2 108 000 barrels per day (see table 4).

This reduction was partly due to government policy aimed at conserving this non-renewable resource, but it was more directly linked with the commitments entered into by Venezuela within OPEC to support the latter's efforts to keep up hydrocarbon prices. OPEC policy in this respect is of course based on the appraisal of energy demand and utilization trends in the world economy.

In this connection, it is estimated that in 1981 there was a drop of 0.5% in world energy consumption and that, within this, the biggest drop was in the consumption of hydrocarbons, whereas other energy sources such as coal and nuclear energy gained ground. An important role in this was played by the greater efficiency achieved in the highly industrialized countries in the use of fuels—a process which has been intensely stimulated since 1974 by the oil price rises and the successive reductions in the supply of hydrocarbons—and the development of alternative energy sources.

In 1981 world oil consumption came to 59.8 million barrels per day, representing a decline of 3.7% from the figure of 62.1 million barrels registered in 1980. A reduction in consumption was observed in all countries of the world except the OPEC countries themselves, whose domestic demand for hydrocarbons increased by 11.5%. In the United States and Canada the drop was around 5%, and the decline was even greater in Japan (-6%), the United Kingdom (-7%) and

Table 2

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Total supply	26 906	26 498	26 511	117.4	132.1	-3.0	-1.5	0.1
Gross domestic product at market prices	20 198	19 956	20 075	100.0	100.0	0.9	-1.2	0.6
Imports of goods and services ^b	6 708	6 542	6 436	17.4	32.1	-13.1	-2.5	-1.6
Total demand	26 906	26 498	26 511	117.4	132.1	-3.0	-1.5	0.1
Domestic demand	24 819	24 567	24 744	97.4	123.3	-3.9	-1.0	0.7
Gross domestic investment	...	...	...	30.8	...	...	...	...
Gross fixed investment	7 194 _c	6 403 _c	...	24.0	31.9 _c	-16.2	-11.0	...
Changes in stocks	...	...	...	6.8	...	...	...	...
Total consumption	17 625 ^c	18 164 ^c	...	66.6	91.4 ^c	2.2 ^c	3.1 ^c	...
General government	...	...	...	14.0	...	...	...	...
Private	...	...	...	52.6	...	...	...	...
Exports of goods and services ^b	2 087	1 931	1 767	20.0	8.8	9.2	-7.5	-8.5

Source: ECLA, on the basis of official data.

^aPreliminary figures.

^bThe figures for imports and exports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by using prices indexes calculated by ECLA for this purpose.

^cChanges in stocks included under total consumption.

Table 3

VENEZUELA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1979	1980	1981 ^a	1971	1981 ^a	1979	1980	1981 ^a
Gross domestic product ^b	19 103	18 873	18 987	100.0	100.0	0.9	-1.2	0.6
Goods	7 322	7 120	7 056	44.4	36.7	1.9	-2.8	-0.9
Agriculture, hunting, forestry and fishing	1 301	1 341	1 346	7.5	7.0	3.7	3.1	0.4
Petroleum	1 709	1 580	1 514	19.6	7.9	6.2	-7.5	-4.2
Extraction	1 371	1 264	1 226	15.9	6.4	8.7	-8.0	-3.0
Refining	338	316	288	3.7	1.5	-2.8	-6.5	-8.9
Mining (excluding petroleum)	167	170	165	1.4	0.9	7.9	1.6	-2.7
Manufacturing	2 714	2 817	2 853	11.4	14.8	5.1	3.8	1.3
Construction	1 431	1 212	1 178	4.5	6.1	-9.7	-15.3	-2.8
Basic services	3 008	3 071	3 134	12.9	16.3	-2.1	2.1	2.1
Electricity, gas and water	484	559	595	1.8	3.1	12.2	15.6	6.5
Transport, storage and communication	2 524	2 512	2 539	11.1	13.2	-4.4	-0.5	1.1
Other services	9 059	8 945	9 054	42.7	47.0	0.4	-1.3	1.2
Wholesale and retail commerce, restaurants and hotels	2 083	1 760	1 669	11.0	8.7	-5.3	-15.5	-5.2
Financial institutions, insurance, real estate and business services	2 421	2 452	2 501	12.7	13.0	-6.2	1.3	2.0
Community, social and personal services	4 555	4 733	4 884	19.0	25.3	7.3	3.9	3.2

Source: 1970-1978: ECLA, on the basis of figures supplied by the Central Bank of Venezuela; 1979-1981: ECLA, on the basis of figures given in the Address by the President of Venezuela to the Congress of the Republic, March 1981.

^a Preliminary figures.

^b As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

above all in the Federal Republic of Germany (-10%) and France (-11%). In the group of countries belonging to the Organization for Economic Co-operation and Development (OECD) the decline was 6.2%, while in the group of non-oil-exporting developing countries the reduction came to 4.2%. In contrast, the socialist countries increased their consumption by 0.8%. In absolute terms, these reductions represented a decline of 2.3 million barrels per day in the consumption of the industrialized countries and 0.4 million barrels per day in that of the non-oil-exporting developing countries.

World production of crude, for its part, went down by 5.9% to an average of 58.3 million barrels per day, that is to say, 3.7 million less than the year before. The biggest effort to bring down production was made by the member countries of OPEC, which produced 22.4 million barrels per day, or 4.5 million less than in 1981. This effort was partly offset, however, by an increase of 0.8 million barrels per day in the production of non-OPEC countries. Among the OPEC countries, the main reductions were in Iran (-12%), Algeria (-27%) and Nigeria (-31%), while in Indonesia and Ecuador there were slight increases. Among the countries which are not members of OPEC, the biggest increases were in Mexico, which increased its production by 21% to 2.6 million barrels per day and the United Kingdom, which increased its production of North Sea oil by 10% to 1.8 million barrels per day.

Thus, while estimated consumption came to 59.8 million barrels per day, production amounted to only 58.3 million. During the year, however, there was apparently a reduction in oil imports as a result of the increased production of some countries which are not members of OPEC and the running down of stocks. This advantageous situation for the importing countries helped to weaken international oil prices, so that at its conference in May OPEC decided to maintain its base

prices and recommend a reduction of 10% in production. As the pressures nevertheless continued, however, at its October meeting the Organization managed to unify the price of crude at US\$ 34 per barrel and proposed that this figure should be maintained until the end of 1982. This decision meant an increase of US\$ 2 per barrel for Saudi Arabian and Nigerian crude and US\$ 1 for that of Indonesia, but represented drops of US\$ 2.50 per barrel for the crude produced by Iran, Kuwait, Libya and Algeria and a drop of US\$ 1 for that produced by Venezuela. Subsequently, in December 1981, a new meeting of OPEC agreed on price reductions of between 20 and 70 US cents per barrel for certain types of crude. Even so, it is estimated that the effective sale prices of petroleum from the OPEC countries were between 12% and 15% higher than the year before. Nevertheless, this increase was well below that of 37% registered in 1980 and the rise of 89% attained in 1979.

In spite of the contraction in the international market, Venezuela managed to increase its exports of crude slightly to a volume of 473.5 million barrels.

At the same time, in pursuance of the policy guidelines designed to conserve its dwindling reserves of light and medium crude, Venezuela managed to increase the proportion of heavy crudes in its total sales from 43% in 1980 to 50% in 1981. Another positive result of the oil marketing policy was the progress made as regards the diversification of clients and markets and the efforts made to maintain Venezuela's position in traditional markets and increase its sales in

Table 4

VENEZUELA: SOME INDICATORS RELATING TO PETROLEUM AND IRON ORE

	1977	1978	1979	1980	1981 ^a	Growth rates				
						1977	1978	1979	1980	1981 ^a
Millions of barrels										
Petroleum										
Production										
Crude petroleum	816.8	790.4	860.1	793.0	769.4	-2.7	-3.2	8.8	-7.8	-3.0
Refined petroleum	354.1	359.7	361.9	338.6	308.1	-1.6	1.6	0.6	-6.4	-9.0
Exports										
Crude petroleum	482.2	454.3	514.0	470.9	473.5	-3.8	-5.8	13.1	-8.0	0.6
Refined petroleum	234.7	254.6	250.1	205.3	163.3	-15.8	8.5	-1.8	-17.9	-20.5
Domestic consumption of refined petroleum	98.8	109.2	120.2	141.2 ^b	148.4 ^b	5.2	10.5	10.1 ^c	9.4	5.1
Reserves ^d	18.0	18.3	18.5	19.6	19.9	-1.0	1.3	1.4	5.9	1.4
Theoretical life of reserves ^e	22.1	23.1	21.5	24.7	24.8	1.8	4.5	-6.9	15.3	0.4
Millions of m ³										
Gas										
Production	35.2	34.8	36.9	35.5	34.0	-1.1	-7.1	6.0	-3.9	-4.2
Utilized ^f	92.5	93.4	93.7	93.6	94.1	0.8	0.4	0.3	0.3	0.5
Wasted ^f	7.5	6.0	6.3	6.4	5.9	-6.3	-12.0	-4.5	-4.5	-7.8
Millions of tons										
Iron ore										
Production	13.7	13.5	15.3	16.1	15.6	-22.2	-2.2	13.3	5.2	-3.1
Exports	11.9	12.8	13.0	11.8	12.4	-24.2	7.6	1.6	-9.2	5.1
Reserves	1 778	1 764	1 748	2 116	2 100	-0.7	-0.8	-0.9	21.0	-0.9

Source: ECLA, on the basis of information contained in the Address by the President of Venezuela to the Congress of the Republic, March 1981.

^a Preliminary figures.

^b Including grease and propane.

^c Excluding grease and propane.

^d Billions of barrels.

^e Reserves divided by production of crude petroleum in the year concerned.

^f Percentages.

the European Economic Community. Exports of refined petroleum products, however, went down by 20%, causing a decline of 9% in domestic refining activity.

Domestic consumption of refined products, for its part, increased by 5%, which was a much lower rate than that of the previous three years (see table 4). At the same time, the downward trend in the share of gasoline in this consumption continued. This share has gone down from 52% in 1979 to 49% in 1980 and 47% in 1981 as a result of the measures taken to moderate gasoline consumption and control illegal exports to other markets (which appear statistically as domestic consumption). Total energy consumption increased by 4.6%, which is likewise less than the figures for the last three years. Within this consumption, energy from the use of hydrocarbons continued to predominate, amounting to 56% of the total, while gas represented 33% and electricity 10%.

Despite the downward trends in the production, refining and export of crude and refined products, petroleum activity nevertheless generated total income of 85 220 million bolívares, or 8% more than in 1980. This income came from exports worth almost US\$ 19 100 million and domestic sales at subsidized prices which amounted to US\$ 725 million. After deducting operating costs, petroleum activity gave a surplus of close to 73 900 million bolívares (6% more than in 1980), of which 59 600 million bolívares went to the government as fiscal contributions (8% more than the year before) and 14 230 million were retained by the petroleum enterprise itself.

Development of the production and technological aspects of petroleum activity continued to receive priority attention. Thus, investment expenditure in the oil industry came to 13 600 million bolívares, representing a considerable increase (39%) over the year before. Of this sum, 2 700 million was spent on prospecting, 6 450 million on extraction and development, 2 600 million on refining, 1 170 million on the oil tanker fleet, 305 million on development of the domestic market, 275 million on the modernization of management, and 140 million on the development and expansion of the petrochemicals industry. In addition, research was intensified through the Venezuelan Petroleum Technology Institute (INTEVEP) on heavy and extra-heavy crudes, recovery and gas technology.

In the field of prospecting, activity was centered on the search for new reserves of light and medium crudes (especially in the Lake Maracaibo area),² prospecting for gas deposits, and the continuation of appraisal activities in the Orinoco oil belt. In pursuance of these objectives, 18 000 kilometers of seismic lines were carried out, of which 8 200 kilometers corresponded to the Orinoco basin, and 336 exploratory wells were completed, 242 of them in the Orinoco area. A total of 885 development and extraction wells were completed, of which 799 proved to be productive, together with two others which produced gas, while 67 were abandoned and the remainder were turned over to other uses. As a result of these activities, 270 million barrels were added to the proven oil reserves and 58 300 million cubic metres to the gas reserves, which stood at year end at 1 320 700 million cubic metres.

As in the previous year, the prices policy applied by the Government consisted of carefully following the evolution of prices at the international level and fully implementing the agreements adopted within OPEC. The prices fixed as from January 1981 were kept in force until 1 November when, in compliance with an OPEC agreement, Venezuela reduced its prices by between one and two and a half dollars per barrel, depending on quality. Even so, the realized price, or effective sale price, averaged US\$ 29.71, representing a relative increase of a little over 12% over 1980, although this increase was admittedly much less than the rise of almost 50% registered in the latter year. The export value, or price imputed by the Government for fiscal purposes, for its part, was set at an average of US\$ 38.21, 17% more than the year before (see table 5). As a result, fiscal income in respect of petroleum came to almost 71 billion bolívares, representing a relatively larger increase than that of the total income generated by the sector.

²One of the objectives of petroleum policy is to arrive at a proportion between reserves and production which will give a minimum time horizon of 15 years for light and medium crudes.

(ii) *Mining.* In 1981 the non-petroleum gross mining product went down by 3%, thus continuing the downward trend followed since 1975, which was only interrupted in 1979. The 1981 result was due to smaller extraction activity in iron ore and diamonds, which was not offset by the considerable increase in gold production.

Iron ore mining came to 15.6 million tons, 3% less than the year before (see table 4). Sales of ore increased by 4% to 15.3 million tons, however, due to the larger external demand, since domestic demand remained unchanged.

In 1981 extraction of diamonds fell from the figure of 665 770 metric carats registered the year before to 500 000 carats.

Gold production, in contrast, came to 570 kilogrammes, representing an increase of 32% over the year before. The State enterprise MINERVEN produced 42% of this total. This enterprise ran into numerous technical and equipment procurement problems, however, in operating the gold ore processing plant completed in 1980 at a cost of 400 million bolívares, which has an ore processing capacity of 252 000 tons. Thanks to changes in the design and processes made towards the end of the year, however, the plant considerably improved its production of fine gold.

(iii) *Agriculture.* In 1981 the agricultural product increased by a little over 1%, i.e., less than one-third of the rates achieved in the previous two years. This result was decisively influenced by the drop of 3.2% in the crop farming product, and, to a lesser extent, the decline of over 9% in fishery activity and the slow growth of beef and pork production (see table 6).

Crop farming activity was seriously affected by the abnormal rainfall, which was 58% higher than the average for the period 1961-1980. This affected the preparation of the ground for the winter sowing, as well as harvesting, transport and storage operations for the summer crops. Other factors which adversely affected crop farming development were the stagnation in real terms of the financing granted by the public sector and the elimination of some important subsidies, especially those for fertilizers and maize. All this led to considerable declines in the production of fibres and oilseeds (-21%), vegetables (-16%), pulses (-14%), and roots and tubers (-3.5%).

The increase of almost 2% registered in the production of cereals, for its part, was due exclusively to the further considerable increase in rice production, largely explained by the increase in the area cultivated.³ Maize production, in contrast, went down by 67 000 tons, while the area

Table 5

VENEZUELA: EVOLUTION OF PETROLEUM PRICES

Year	Dollars per barrel	
	Effective sale price	Official unit export value
1971	2.35	2.48 ^a
1972	2.52	3.02
1973	3.71	4.42
1974	10.53	14.35
1975	10.99	13.76
1976	11.25	14.25
1977	12.61	13.85
1978	12.21	13.78
1979	17.69	19.88
1980	26.44	32.69
1981	29.71 ^b	38.21 ^b

Source: ECLA, on the basis of the Address by the President of Venezuela to the Congress of the Republic, March 1981.

^a Average of reference price and export value.

^b Estimates.

³ This area came to 229 000 hectares, more than in any of the previous five years.

Table 6

VENEZUELA: VALUE AND VOLUME OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981 ^a	Growth rates			
					1978	1979	1980	1981 ^a
Value (millions of bolívares at 1968 prices)								
Agricultural production	6 100	6 330	6 551	6 622	2.1	3.8	3.5	1.1
Crop farming	2 436	2 549	2 593	2 511	-1.4	4.6	1.7	-3.2
Cereals	637	729	721	734	-7.1	14.4	-1.1	1.8
Roots and tubers	214	228	227	219	-3.2	6.5	-0.4	-3.5
Fibres and oilseeds	226	173	185	146	-7.8	-23.4	6.9	-21.0
Fruit	583	561	575	589	9.3	-0.4	2.5	2.4
Green vegetables	167	198	210	176	2.5	18.6	6.1	-16.2
Coffee, cocoa and others	584	619	631	609	-3.2	6.0	1.9	-3.5
Pulses	45	41	44	38	18.4	-8.9	7.3	-13.6
Stock-raising	2 905	3 048	3 213	3 375	3.2	4.9	5.4	5.0
Fishery	111	130	127	115	9.9	17.1	-2.3	-9.4
Forestry	70	63	61	61	55.6	-10.0	-3.2	-
Agricultural services and improvements ^b	493	450	465	466	8.4	-8.7	3.3	0.2
Processed goods	85	90	92	94	-4.5	5.9	2.2	2.2
Volume (thousands of tons)								
Principal crop-farming products								
Rice	502	614	656	730	1.1	22.3	6.8	11.3
Maize	591	613	519	452	-23.6	3.7	-15.3	-12.9
Sorghum	340	396	402	386	21.4	16.5	1.5	-3.9
Sesame	65	42	57	46	-20.5	-35.4	35.7	-19.3
Coconuts	161	159	159	160	0.8	-1.2	-	0.6
Cambur (bananas)	900	873	890	915	2.9	-3.0	1.9	2.8
Oranges	314	330	351	368	2.0	5.1	17.0	4.8
Coffee	59	54	58	64	2.3	-8.5	7.4	10.3
Sugar cane	4 828	5 091	5 192	4 216	-9.9	5.4	2.0	-18.8
Plantains	445	437	418	426	9.6	-1.8	-4.3	1.9
Potatoes	171	191	191	171	-4.5	11.7	-	-10.5
Principal stock-raising products								
Milk ^c	1 202	1 241	1 274	1 311	2.5	3.2	2.7	2.9
Beef ^d	1 631	1 699	1 724	1 752	19.1	4.1	1.5	1.6
Pork ^d	1 432	1 475	1 677	1 707	-7.7	3.0	13.7	1.8
Poultry ^e	128	134	159	176	12.7	4.7	18.7	10.7
Eggs for direct consumption ^f	1 841	2 108	2 034	2 318	12.3	14.5	-3.5	14.0

Source: ECLA, on the basis of statistics contained in the Address by the President of Venezuela to the Congress of the Republic, March 1981.

^aPreliminary figures.

^bIncluding agricultural construction.

^cMillions of litres.

^dThousands of head.

^eMillions of units.

cultivated was reduced by 81 000 hectares. There were also small declines in the area planted with sorghum and in the harvest of this crop. Among oilseeds, the production of peanuts and sesame went down, while that of coconuts stagnated because of the lack of stimulus caused by the low support price fixed for this crop. In contrast, and partly in order to offset the adverse effects of the climatic conditions and the costs of imports due to the elimination of subsidies, the minimum guaranteed prices were raised for white maize (29%), yellow maize (14%), rice (14%), sorghum (27%), peanuts (22%) and cotton (46%).

The increase of 5% registered by the livestock sector was due mainly to the results of poultry farming and, to a lesser extent, milk production. In 1981, as in the previous year, difficulties were experienced in the timely delivery of feed concentrates, which were even more urgent this time, since the weather conditions had reduced the availability of natural pastures.

The smaller output of agricultural products gave rise to imbalances with respect to domestic demand which were first of all reflected in an average rise of almost 20% in the prices of such products: a much larger rise than that registered for the other domestic goods. This resulted in turn in increases of 14% in controlled prices and a much larger average increase of 33% in the prices of goods not subject to control.

In view of this situation, the Agricultural Marketing Corporation (CMA) took rapid action to keep the domestic market supplied by directly acquiring abroad 1.4 million tons of agricultural products costing 1 760 million bolívares. These goods consisted mainly of maize, sorghum, soya and powdered milk. In addition, the CMA imported over a million tons of agricultural products worth 2 700 million bolívares through third parties.

In 1981 it was once again necessary to grant economic and consumption subsidies totalling almost 3 700 million bolívares, of which 1 040 million (325 million more than in 1980) went on feed concentrates, 1 020 million on sugar, 630 million on milk (70 million less than the year before), 370 million on maize flour and 320 million on coffee. During the year, however, the Government eliminated the subsidies granted the year before to fertilizers (640 million), edible oils (210 million), maize (1 300 million) and rice (100 million).

In order to stimulate the sector, and in view of the emergency created by the heavy rains, some measures were taken to make the patterns of financing more functional, together with legal measures regarding private bank loans to the sector. In this connection, while State loans to finance working capital in these activities remained practically unchanged at 2 600 million bolívares, those granted to finance fixed capital were increased by 200 million bolívares to 1 200 million. The private banks, for their part, increased their loans to agricultural activities from 11 600 to 13 200 million bolívares. The National Agricultural Insurance Corporation (AGROSEGURO), whose objective is to ensure crops against all natural risks and livestock against death from illness or accident⁴ began operations in 1981. Finally, during the year measures were taken to increase the operating efficiency of enterprises connected with the sector such as the CMA, and it was decided that VENFERCA, whose distribution of fertilizers went down from 554 000 tons to 405 000 tons between 1980 and 1981, should cease operations on the last day of the year and transfer its functions to a subsidiary of Petroquímica de Venezuela (PEQUIVEN).

(iv) *Manufacturing.* The increase of 1.3% in the gross manufacturing product achieved in 1981 was in line with the trend already observed in 1980. As in that year and the one before it, it was the public enterprises which gave the greatest dynamism to the sector as a whole, even though their growth rate dropped from 4% in 1980 to only 1.8% in 1981. The overall result was influenced, on the one hand, by the declines in the output of Siderúrgica del Orinoco (SIDOR), Industria Venezolana de Aluminio (VENALUM) and PEQUIVEN, and on the other hand, the increases registered by Aluminio del Caroní (ALCASA) and NITROVEN. Private industrial activity, for its part, which had grown by only 0.8% in 1980, stagnated completely in 1981.

Among the traditional industrial activities, there was an increase in the product of the beverages, tobacco, wood and cork industries; the production of foodstuffs and footwear remained unchanged, and there were drops of 3% in clothing and 20% in the manufacture of furniture and fittings. Among the branches of industry producing raw materials and intermediate goods, the most significant increase (14%) was in paper and pulp production, while the rubber, non-metallic minerals and basic metals industries registered moderate increases and chemical products and plastics suffered considerable declines.

In contrast, the product of engineering industries as a whole increased by 4%, and among them only the product of the non-electrical machinery branch suffered a sharp decline (-17%).

⁴In order to gain greater experience gradually, AGROSEGURO's activities were limited to certain areas, crops and types of animals.

Among the main manufactures, production of automobiles, pig-iron, sugar and above all sulphuric acid suffered very marked drops, while aluminium production declined by 4%. There were, however, slight increases in the production of steel and paper and cardboard, and bigger increases in the output of urea, fertilizers, ammonia and commercial vehicles (see table 7).

The policy followed with regard to the industrial sector during 1981 represented a continuation of the basic patterns adopted since 1979, although there were changes of emphasis on some aspects. On the one hand, measures continued with a view to the further application of the policy of realistic prices, but their effect on price rises at the producer level was not as great as in 1980, and there were even some declines in prices.³ Despite this policy, however, controlled prices were maintained for products considered to be of prime necessity, such as prepared foods for children, and maximum retail prices were fixed for over 1350 pharmaceutical products. Furthermore, in the case of goods and services not classed as products of prime necessity, it was made compulsory to inform the Ministry of Development one month in advance about any proposed change in sale prices.

Table 7

**VENEZUELA: INDICATORS OF MANUFACTURING
PRODUCTION AND ELECTRICITY**

	Thousands of tons				Growth rates		
	1978	1979	1980	1981 ^a	1979	1980	1981 ^a
Pig iron	418	509	498	417	21.8	-2.2	-16.3
Steel	698	1 283	1 784	1 818	83.8	39.0	1.9
Bars	348	322	469	482	-7.5	45.7	2.8
Aluminium	75	212	326	314	182.7	53.8	-3.7
Alcasa	61	106	110	112	73.7	3.8	1.8
Venalum	14	106	216	202	657.1	103.7	-6.5
Cement	4 107	3 973	4 842	4 876	-3.3	21.9	0.7
Ammonia	271	331	439	506	22.1	32.6	15.3
Sulphuric acid	92	128	114	79	39.1	-10.9	-30.7
Urea	135	220	276	303	63.0	25.5	9.8
Fertilizers	141	297	441	473	110.6	48.5	7.3
Motor tyres ^b	3 089	3 444	3 483	3 681	11.5	1.1	5.7
Paper and cardboard	493	511	501	509	3.7	-2.0	1.6
Sugar	371	320	334	261	-13.7	4.4	-21.9
Vehicles ^b	183	158	155	154	-13.7	-1.9	-0.6
Passenger vehicles	104	92	94	82	-11.5	2.2	-12.8
Commercial vehicles	79	66	61	72	-16.5	-7.6	18.0
Electric energy ^c							
Installed capacity ^d	6 103	7 514	7 728	8 412	23.1	2.9	8.9
Generation ^e	22 625	28 109	32 432	34 532	24.2	15.4	6.5
Consumption ^e	18 382	24 130	31 132	34 411	31.3	14.8	10.5
Industrial	...	10 550	14 294	14 516	...	35.5	1.6
Residential	...	4 673	5 792	6 463	...	23.9	11.6
Other	...	8 907	11 046	13 432	...	24.0	21.6

Source: ECLA, on the basis of official data.

^a Preliminary figures.

^b Thousands of units.

^c Of interconnected system.

^d Thousands of kW.

^e Millions of kWh.

³ Thus, the average increase in price of all industrial goods at the producer level was 10.4%, whereas in 1980 it had been 19.4%. The following are the price variations by industrial groupings, with the 1980 percentages in brackets: foodstuffs 13% (22%); textiles, clothing and leather 8% (17%); wood, cork and furniture 7% (22%); paper, printing and publishing 3% (21%); chemical substances derived from petroleum or coal, rubber and plastics 21% (15%); metal products, machinery and equipment 14% (8%); basic metals industries -7% (38%), and other manufacturing industries -2% (63%).

As regards credit support, the commercial banks only increased their loans to the industrial sector by 6%, but the State financial institutions expanded their credits by over 85%. These institutions made loans to private industrial enterprises amounting to almost 3 billion bolívares, the increase in credits for the development of the capital goods industry being particularly noteworthy, since these increased from 170 million bolívares in 1980 to 570 million in 1981. This increase was directed mainly to the industries producing transport equipment and machinery. The expansion in the credits granted by public sector financial bodies to the State industrial enterprises was even greater, amounting to 4260 million bolívares, over 12 times the figure of 350 million given in 1980. This enormous increase consisted mainly of a capital contribution of over 3 billion bolívares to Siderúrgica del Orinoco (SIDOR) and a contribution of over 1 200 million bolívares to finance the expansion of the aluminium industry.

In order to strengthen future industrial growth, special measures were also taken to promote technological development and the capital goods industry.

In the first of these areas, the basic objective of government policy is to raise national technological capacity through a suitable transfer of technology from the exterior and the promotion of technical innovations. This policy was put into practice through a set of measures in the areas of standardization and quality control, productivity and industrial property, with the Technical Innovation Promotion Fund (FINTEC) being set up as the body to provide credits and risk capital for the adaptation of new technologies. In the field of standardization, almost 300 standards were analysed and 171 were given official application after studying over 100 international standards. Finally, in the field of quality control an appraisal was made of over 300 enterprises in the foodstuffs, motor vehicles, metal products and machinery, and other branches.

The policy for the development of the capital goods industry, for its part, is based on the analysis of demand for these goods by the petroleum and petroleum products, petrochemicals, iron and steel, aluminium, electricity, transport and construction branches. To this end, the National Council for the Development of the Capital Goods Industry was set up in 1980 and in 1981 it studied and secured the approval of a decree designed to guide and develop these industries through financial, fiscal and tariff incentives. It also prepared a list of 147 types of capital goods considered to be of priority importance (including 18 priority types required by the petroleum branch) and carried out a sample census among enterprises producing capital goods, as well as formulating programmes for the training of specialized personnel in the metal manufactures and machinery branches.

In addition, through the use of tariffs, import quotas and price adjustments, the Government continued to give support to the development of agro-industries (especially those connected with the production of oils and fats and the processing of cereals, food and tomatoes) and of the leather tanning and footwear industries.

In the motor industry, the minimum number of each new model that must be produced was raised in order to rationalize production, the manufacture of economy vehicles was initiated by the Ford, General Motors, Renault and Fábrica Industrial de Automotores de Venezuela factories, the minimum content of parts and components of domestic origin was raised, and the Motor Industry Research and Development Centre was set up to further the development of the motor industry and the associated engineering industries and to promote the training of specialized staff.

The steel output of the State enterprise SIDOR came to 1.8 million tons, which was slightly more than the year before. In these activities, appreciable increases in productivity were achieved in the pipe, bar and wire plants, and in the open-hearth furnaces. The sales of this enterprise amounted to 1 865 000 tons of products worth almost 3 850 million bolívares. Of this total, 1 465 000 tons went to the domestic market and 400 000 tons were exported (33% more than in 1980). Despite these increases, however, the enterprise closed the year with net losses of close to 2 200 million bolívares, a significant influence in this result being the high finance charges. SIDOR continued with its investment plan, however, and disbursed 650 million bolívares during the year, so that its total accumulated investments came to 14 450 million bolívares.

The differing performance of the VENALUM and ALCASA enterprises resulted in an overall decline of 4% in the aluminium industry. In VENALUM, far from achieving the target of producing

268 000 tons of aluminium in 1981 (25% more than in 1980), only a little over 200 000 tons was actually produced, as a result of technical problems.⁶ Since sales also went down, 6 000 tons of stocks were built up. At the same time, mainly as a result of the drop in the international price of aluminium, the profits of the firm dropped from 215 million bolívares in 1980 to only 65 million in 1981. The situation in ALCASA was different, however, since in 1981 its output was slightly greater than that of the year before (see table 7). This enterprise too, however, suffered a considerable deterioration in its financial results, since it turned in a loss of 68 million bolívares after having generated profits totalling 11 million the year before.

In contrast with what happened in the aluminium industry, considerable advances were made in 1981 in the petrochemicals industry. Thus, the production of the El Tablazo and Morón complexes came to 973 000 tons (5% more than the year before), while exports of petrochemical products were almost 50% greater than in 1980. Furthermore, in 1981 the financial situation of the enterprise continued to improve, as it had done the year before.

Sugar production, for its part, came to a little over 260 000 tons, which represented a considerable reduction (-22%) compared with the previous harvest. The State consortium Centrales-Azucareros (CENAZUCAR) produced 139 000 tons of sugar (a decline of 16%), while the volume of sugar cane milled in its plants amounted to 2.3 million tons (a decline of 11% compared with the year before). These figures suggest that the unfavourable weather conditions already referred to not only affected the cultivation of sugar cane but also reduced its sucrose content.

With the aim of properly satisfying domestic demand, which is estimated at 700 000 tons, CENAZUCAR worked out and co-ordinated a programme of imports of this product. Furthermore, as part of the Colombian-Venezuelan integration project entitled Agroindustrias Zulia-Urefia C.A., it was agreed to set up in the River Zulia area, in Colombian territory, a sugar mill purchased in the Bahamas whose dismantling, transport and installation will take 24 months.

(v) *Construction.* In spite of a decline of 2.8% in the construction product and the existence of complex financial problems affecting this activity, some recovery was made in 1981 from the severe decline suffered in 1979 and 1980, when the product of the sector fell by 10% and 15% respectively.

This result was achieved thanks to the recovery of public sector construction activity, which, after going down by 20% the year before, grew by 15% in 1981 and generated almost two-thirds of the total construction product. This greater activity was stimulated by a new spurt in public investments on projects designed to increase the installed capacity for electric power generation, expand the transport and communications system, increase the coverage of the sewerage system and expand the provision of other sanitation works. It was also favoured by a 19% increase in public sector spending on housing construction, which thus rose to 3 400 million bolívares and permitted the construction of almost 28 550 urban dwellings and a little over 13 100 rural ones.

In contrast, the deterioration of private construction activity was further aggravated, since it contracted by 24% in 1981 after having gone down by 11% the year before. The sharp decline in the activity of this sector was once again connected with the conditions which have been prevailing for several years now in the real estate market because of the rising costs of dwellings and the inadequacy of family income to satisfy the ever-increasing demands posed by their acquisition through mortgage credits. This inadequacy was further aggravated in 1981 through the accentuation of the upward trend in interest rates. Thus, whereas in the three-year period 1976-1978 the interest rates charged in Caracas by mortgage banks and savings and loan institutions averaged 10.4% and 9.3%, respectively, in the next two years these averages rose to 11.4% and 11%, and in the last three months of 1981 they shot up to 17.1% and 16.9%. Private sector construction was also affected by the drop in demand for construction work caused by the decline in investments by private businessmen in the productive sectors.

The decline in the effective demand for housing led, in turn, to a rise in the stock of finished dwellings to 27 500 units at the end of the first half of the year (5 500 more than at the same date

⁶Of the 720 reduction cells, it was only possible to operate 498.

the previous year) and, according to conservative estimates, to 35 000 at the end of the year. This smaller demand caused a decline of around 16% in housing prices at the constructor level compared with the figures prevailing in 1980, when housing prices showed relative stagnation.

In order to deal with this situation, the Government adopted a number of measures which included on the one hand the expansion of the programme of subsidies in respect of the interest costs on loans for the acquisition of lower-priced housing and, on the other, assistance to the mortgage banks through the Urban Development Fund, the simplification of the regulations regarding mortgage banking and the extension to a maximum of 30 years of the repayment period for housing loans.

(vi) *Electric power.* During 1981 the total installed capacity was increased by almost 1 100 MkW to 8900 MkW, while gross total generation came to nearly 35 300 million kWh, representing a relative increase of 5.5% over the previous year. The interconnected installed capacity, for its part, increased by nearly 690 MkW during the year to a little over 8400 MkW, while consumption exceeded 34 400 million kWh, 10.5% more than the year before (see table 7).

Of the total installed capacity, 76% belongs to the State and the remainder to the private sector, while of the 34.5 million kWh generated in 1981 almost 44% was hydroelectric power while the remaining 56% came from thermal power stations. Rather more than 80% of the energy generated was produced by the public sector, within which the *Compañía Anónima de Administración y Fomento Eléctrico* produced 32%, the *Compañía Electrificación del Caroní, C.A. (EDELCA)* generated almost 52%, and the remainder came from other State power stations such as *Energía Eléctrica de Barquisimeto*, *Plantas Eléctricas del Carora* and *Electricidad del Perijá*.

With the aim of continuing the intensive development of the electricity sector achieved in the last 10 years,⁷ and in accordance with the guidelines of the Sixth National Plan, in 1981 the Law on the Financing of the Public Investment Programme in the National Electricity Sector was adopted. This law empowers the Executive to carry out credit operations of up to 16 400 million bolívars in order to finance projects for the expansion of installed capacity and the extension of transmission and distribution lines which cannot be financed from the enterprises' own resources or from further capital contributions by the State financial institutions for the development of these programmes.

(c) *Employment and unemployment*

During the first half of 1981 —the latest period for which statistical data are available— the tendency apparently was towards the continuation of the employment situation existing in the same period of the previous year. Thus, according to the household surveys carried out by the *Oficina Central de Estadística e Informática (OCEI)*, the average rate of unemployment during the first six months of 1981 was 6.3%, that is to say, practically the same as the 6.2% registered in the equivalent period of 1980, which was higher than any of the rates measured in the previous three years (see table 8).

It is likely, however, that this very slight rise in the rate of unemployment underestimates the actual deterioration in the employment situation, for according to the same survey total employment seems to have increased by almost 3% between the first half of 1980 and that of 1981. This increase was mainly concentrated in financial activities (8.6%) and transport and communications (7.5%), while the expansion of employment in the goods-producing sectors was very slow (1.1%), as in the previous two years. As the output of agriculture and manufacturing grew even more slowly in 1981 and construction activity actually declined, however, the growth rates of employment seem to have given rise to slight declines in the productivity of labour. In view of the considerably faster increase of employment than of the product, the reduction in productivity must have been quite marked in transport, commerce and financial activities (see tables 3 and 8).

⁷Between 1972 and 1981, the installed capacity increased by a factor of 3.4, the number of subscribers rose from 1.4 million to 2.46 million, and the number of users rose from 3.2 to 8.4 million persons. The latter figure meant that in that year the electricity services covered 57% of the total population of the country.

Moreover, in order for the rate of unemployment to have remained almost unchanged, the labour force would have had to increase at a rate practically equal to that of employment, that is to say, by 3%, and in order for this to occur it would have been necessary, in turn, for a significant proportion of the persons of working age to have ceased looking for employment.

At all events, the evolution of employment was accompanied by a decline in real terms in average family income. Thus, between the first halves of 1980 and 1981 this income rose by a little over 11%, but over the same period of time consumer prices increased by 18.3%, so that the purchasing power of family income went down by 6%.

3. The external sector

(a) *External trade*

(i) *Exports of goods.* During 1981, the value of exports of goods rose by 4%, which was a much smaller increase than those registered in the previous two years, when the total amount more than doubled (see table 9). As in 1980, the rise in the value of exports was achieved in spite of a decline in their physical volume, thanks to the higher prices obtained on the world market for petroleum (which increased by 12%) and iron ore (which went up by 9%).

Altogether, exports of petroleum and petroleum products totalled almost US\$ 19 100 million and thus increased by 4.3%, after having grown by 56% in 1979 and 35% in 1980. This marked reduction in their growth rate was due to the smaller demand for hydrocarbons on the world

Table 8

VENEZUELA: EMPLOYMENT AND UNEMPLOYMENT

	1978	1979	1980	1981 ^a	Growth rates				
					1978	1979	1980	1981 ^b	1981 ^c
Thousands of persons									
Total employment	3 957	4 054	4 197	4 272	3.4	2.5	3.5	3.0	0.6
Production of goods	1 719	1 713	1 743	1 742	2.9	-0.3	1.8	1.1	-1.0
Agriculture	645	628	631	634	-5.6	-2.6	0.5	1.4	-0.5
Petroleum and mining	50	56	63	55	-3.8	12.0	12.5	-11.3	-12.2
Manufacturing	665	663	668	673	8.5	-0.3	0.8	1.8	-1.5
Construction	358	366	381	380	11.2	2.2	4.1	1.3	-1.8
Basic services	318	330	347	364	10.0	3.8	5.2	6.4	3.4
Electricity, gas and water	45	48	49	49	12.5	6.7	2.1	...	-2.0
Transport and communications	273	282	293	315	9.6	3.3	5.7	7.5	4.3
Other services	1 920	2 011	2 107	2 166	2.9	4.7	4.8	3.8	1.6
Commerce	688	730	787	801	1.2	6.1	7.8	4.0	-0.2
Finance	167	173	186	201	8.4	3.6	7.5	8.6	7.5
Others	1 061	1 108	1 134	1 164	3.1	4.4	2.3	2.8	1.9
Percentages									
Rate of unemployment	4.7	5.4	5.9	6.3					
Gross rate of participation ^d	57.5	58.0	58.2	58.1					
Bolívares									
Average monthly family income	2 613	3 000	3 602	3 878	17.3	14.8	20.0	11.1	4.4

Source: ECLA, on the basis of data compiled by the Oficina Central de Estadística e Informática (OCEI), contained in the publication entitled *Encuesta de hogares*.

^a First half of 1981.

^b First half of 1981, with respect to the same period of 1980.

^c First half of 1981, with respect to the second half of 1980.

^d Population aged 15 and over, as a percentage of total population.

market, to the restrictions deliberately imposed by the authorities on petroleum production in order to conserve the reserves of light and medium crude, and in particular, to the much smaller rise registered in 1981 in the sale price of Venezuelan crude (see table 5). Nevertheless, as is traditional, sales of hydrocarbons once again accounted for over 95% of the total value of sales of goods abroad in 1981.

Among the other main export products, sales of iron ore, which had stagnated in 1979 but which increased by 7% in 1980, doubled their growth rate in 1981. In contrast, exports of aluminium grew by less than 4% after having increased by a factor of 17 between 1978 and 1980 (see table 9). This modest increase in sales of aluminium occurred in spite of the fact that VENALUM increased its volume of exports from 150 000 to 170 000 tons, while ALCASA increased its sales abroad from 53 000 tons to 69 330 tons. This expansion of 18% in the physical amount exported was largely neutralized, however, by the decline in the international price of aluminium.

Among non-traditional exports, those of iron and steel products attained a volume of 400 000 tons (33% more than the year before) and a value of US\$ 94 million (35% more than in 1980). The expansion in sales of petrochemical products (ammonia, urea and ethylene) was even greater, since their total value of US\$ 95 million represented an increase of 49%. Altogether, however, exports of products other than petroleum, iron ore and aluminium went down by 6%.

Table 9
VENEZUELA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1978	1979	1980	1981 ^a	1970	1981 ^a	1979	1980	1981 ^a
Total	9 174	14 360	19 275	20 078	100.0	100.0	56.5	34.2	4.2
Petroleum and petroleum products	8 725	13 609	18 301	19 094	90.5	95.1	56.0	34.5	4.3
Iron ore	137	138	148	169	5.3	0.8	0.7	7.2	14.2
Aluminium	23	182	402	417	0.3	2.1	691.3	120.9	3.7
Others	289	431	424	398	3.9	1.9	49.1	-1.6	-6.1

Source: ECLA, on the basis of official statistics.

^aPreliminary figures.

Table 10
VENEZUELA: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980	1981 ^a
Growth rates							
Exports of goods							
Value	-20.2	5.2	2.6	-4.9	55.9	34.6	5.4
Volume	-25.3	1.2	-9.8	-1.2	11.8	-8.4	-6.3
Unit value	6.8	4.0	13.8	-3.8	39.5	46.9	12.5
Imports of goods							
Value	40.9	34.3	38.9	10.2	-11.0	13.1	9.4
Volume	25.2	24.9	29.2	2.9	-17.0	-2.9	-2.2
Unit value	12.6	7.6	7.6	7.1	7.3	16.6	11.9
Terms of trade (goods)	-5.1	-3.0	6.0	-10.2	29.6	27.1	0.7
Indexes (1970 = 100)							
Terms of trade (goods)	335.3	325.1	344.6	309.6	401.1	509.9	513.3
Purchasing power of exports of goods	216.1	211.6	202.2	179.9	260.3	305.1	288.8
Purchasing power of exports of goods and services	213.8	206.0	201.4	181.7	257.5	299.4	282.0

Source: ECLA, on the basis of official data.

^aPreliminary figures.

With the aim of promoting exports, on the one hand efforts were made to determine the exportable supply (a process which culminated in the production of a Directory of Exportable Products, listing the 445 enterprises producing such goods), while on the other hand efforts were made to stimulate awareness of the need to export among businessmen, especially in the industrial sector. In addition, the Government organized a number of exhibitions in Arab countries and the Caribbean, with the participation of almost 100 potential export enterprises from the branches producing chemicals, metal products and machinery, plastics, electrical goods, foodstuffs and intermediate goods for the oil industry.

In addition, the Export Financing Fund (FINEXPO) established agreements with 135 commercial banking establishments to take care of pre-shipment and post-shipment operations. Although the direct and indirect credits granted by this institution went down from 737 million bolívares in 1980 to 436 million in 1981, this decline was due exclusively to the fact that in 1980 a loan of 430 million bolívares was granted to Panama to finance a suspension bridge over the Canal, to be installed by Venezuelan constructors and manufacturers. Of the total direct credits granted by FINEXPO, 105 million bolívares went to the metal products and machinery industry, 32 million to the construction industry, 18 million to the chemical industry, while the rest went to finance exports by the plastics, agricultural products, fishery and other industries. The credits granted by FINEXPO through the national commercial banking system, for their part, amounted to 190 million bolívares, which was supplemented by an equivalent sum added by the banks. Most of this total of 380 million bolívares was used to support exports by the aluminium, iron and steel (steel ingots, steel plates and bars, seamed tubes) and ammonia and urea industries.

As part of its export promotion policy, FINEXPO signed letters of intent for a total of 1540 million bolívares in respect of the export of metal bridges to Suriname and Guatemala, metal structures to the United States, Mexico and Saudi Arabia, buses to Costa Rica and Honduras, water pipelines to Chile, and telephone apparatus, aluminium cables and bars, transformers, trucks, motor parts and boilers to Colombia.

Finally, another important type of support given to exporters was the system of export credit guarantees, which insured sales for a total value of 525 million bolívares through the issue of almost 800 insurance policies.

(ii) *Imports of goods.* After going down in 1979 and then increasing 13% in 1980, the value of imports of goods rose by a little over 9% in 1981 to the record total of almost US\$ 12 380 million (see table 10). Of this sum, imports by the public sector accounted for rather more than US\$ 3 700 million (an increase of 33% over the year before), while those of the private sector increased by 7% to almost US\$ 8 650 million.

The bigger purchases abroad by the public sector were due to the requirements of the investment projects being carried out in the petroleum, aluminium and iron and steel industries. They were also affected by the purchases of agricultural products which it was necessary to make in order to compensate for the drop in domestic production caused by the hard winter. Thus, the Agricultural Marketing Corporation directly acquired 1.4 million tons of agricultural products worth over US\$ 410 million and consisting mainly of maize, sorghum, soya and powdered milk, while through private sector intermediaries it imported another million tons of products worth almost US\$ 630 million. The total agricultural imports made by this body thus came to US\$ 1040 million, 47% more than in 1980. In addition to these purchases, the Corporation also acquired abroad 14 100 tons of meat worth US\$ 74 million, of which 8 600 tons costing US\$ 35 million came from Colombia.

During the year, the authorities continued their policy aimed at reducing tariff levels, liberalizing imports and doing away with tariff exemptions except in special cases. In addition, the "buy Venezuelan" decree was put into effect, whereby it was sought to promote import substitution. With this aim in mind, measures were taken to achieve the effective centralization of information on public sector demand so as to channel the corresponding purchases to domestic producers. With the same objective, it was made compulsory to break down projects for new investments or for the expansion of existing plants into smaller components, and an updated register of suppliers of goods and services of domestic origin was prepared.

(b) The balance of payments

In 1980, the value of exports of goods came to nearly US\$ 20 100 million and that of imports to almost US\$ 12 400 million, so that the merchandise transactions with the exterior gave a surplus of US\$ 7 700 million, i.e., slightly less than that registered in 1980. The services account, as is traditional, turned in a substantial deficit of almost US\$ 4 billion, thus exceeding that of the year before by almost 14%. The main cause of this larger deficit was the expansion of purchases of services abroad by over US\$ 400 million, while exports of services suffered a slight decline (see table 11).

Net payments of profits and interest, in contrast, generated a surplus which was considerably bigger than that of the year before. Thanks to the big investments abroad, income from interest amounted to US\$ 3 780 million, 58% more than in 1980 and almost four times the value of non-petroleum exports in 1981.⁸ Payments of profits and interest to the exterior, for their part, increased by 57% to a little over US\$ 3 billion. Of the total interest paid, US\$ 420 million was due to servicing of the public debt and a little over US\$ 1 billion to servicing payments on the private sector debt.

Finally, unilateral private transactions turned in a deficit of US\$ 420 million dollars (similar to the year before), due mainly to the remittances made by foreigners working in Venezuela.

As a result of the above transactions, a current account surplus of slightly over US\$ 4 billion was achieved for the third consecutive year.

Although during the first nine months of the year the interest rate differentials were clearly favourable to the exterior, in 1981 there was a considerable reduction in the net outflow of capital, which had exceeded US\$ 4 300 million the year before.

As a result of this and of the substantial surplus achieved on current operations, the international reserves rose by rather more than US\$ 2 500 million to slightly over US\$ 11 400 million at the end of the year. Of this total, a little over US\$ 8 600 million belonged to the Central Bank, US\$ 2 450 million to the Venezuelan Investment Fund, and the rest to the commercial banks (see table 12). If we add to this total the short-term deposits (estimated at US\$ 8 695 million) which *Petróleos de Venezuela S.A.* maintains abroad, then the total foreign assets of the country came to US\$ 20 100 million: sufficient to cover imports of goods and services for 14 months.

(c) External indebtedness

During 1981, the public sector sold securities worth a total of US\$ 968 million abroad, but at the same time it made amortization and settlement payments of the order of US\$ 890 million, so that the net increase in the external public debt was only US\$ 77 million, which contrasted sharply with the much greater increases registered each year since 1975. Thus, the total disbursed external debt at the end of the year came to a little over US\$ 9 700 million (see table 13).

Of this total, over US\$ 6 540 million corresponds to direct indebtedness assumed by the nation with the authorization of the National Congress and US\$ 1 290 million to similarly authorized debts contracted by the quasi-autonomous bodies with or without the guarantee of the State, either by procuring credit or by selling securities and bonds issued by them. As regards its maturity structure, 69% of the external debt matures before 1987, 30% matures in the five-year period 1987-1992 and only 1% has a term of over 10 years.

The scanty indebtedness entered into in 1981 was due on the one hand to the fact that there was some delay in the process of granting authorization to contract external debts, and on the other to the fact that the interest rates prevailing abroad not only curbed the process of indebtedness but even induced State enterprises to repatriate short-term capital to finance their investment needs. In the future, however, it can be expected that there will be greater indebtedness by virtue of the power which the Congress of the Republic granted to the Government through the Organic Law on Public Credit to carry out credit operations of up to 61 200 million bolívares.

⁸Of this sum, the Central Bank received US\$ 880 million; the Investment Fund, US\$ 524 million; *Petróleos de Venezuela*, US\$ 1 277 million, and private investors, US\$ 1 095 million.

Table 11

VENEZUELA: BALANCE OF PAYMENTS

(Millions of dollars)

	1975	1976	1977	1978	1979	1980	1981 ^a
Exports of goods and services	9 353	9 683	10 164	9 803	14 959	19 977	20 940
Goods FOB	8 854	9 314	9 556	9 085	14 159	19 057	20 080
Services ^b	499	371	608	720	800	920	860
Transport and insurance	261	151	315	384	473	513	420
Travel	180	109	168	205	178	246	250
Imports of goods and services	7 108	9 241	12 976	14 983	14 025	15 704	17 200
Goods FOB	5 462	7 337	10 194	11 234	10 004	11 318	12 380
Services ^b	1 646	1 904	2 782	3 748	4 021	4 386	4 820
Transport and insurance	776	984	1 274	1 555	1 454	1 610	1 650
Travel	416	617	1 053	1 635	1 727	1 981	2 250
Merchandise balance	3 391	1 977	-637	-2 150	4 155	7 739	7 700
Trade balance	2 245	442	-2 811	-5 180	934	4 273	3 740
Profits and interest	100	202	85	36	-3	456	740
Profits	-584	-345	-404	-501	-636	-804	-1 600
Interest received	739	693	782	1 052	1 346	2 391	3 780
Interest paid	-56	-145	-293	-515	-713	-1 131	-1 440
Unrequited private transfer payments	-143	-169	-230	-369	-386	-418	-420
Balance on current account	2 201	476	-2 956	-5 513	545	4 309	4 060
Unrequited official transfer payments	-30	-63	-53	-38	-21	-21	...
Long-term capital	395	1 373	2 151	3 718	1 526	1 335	...
Direct investment	418	-889	-4	68	88	55	...
Portfolio investment	-69	914	67	363	-80	1 574	...
Other long-term capital	46	1 347	2 088	3 288	1 518	-293	...
Official sector ^c	-24	934	1 302	2 016	1 070	-74	...
Loans received	188	1 536	1 719	2 441	1 857	787	...
Amortization payments	-297	-595	-407	-422	-786	-866	...
Commercial banks ^c	50	239	414	687	-655	220	...
Loans received	-	-	-	-	-	-	...
Amortization payments	-	-	-	-	-	-	...
Other sectors ^c	21	174	371	585	1 103	-439	...
Loans received	378	849	1 078	1 752	2 066	1 942	...
Amortization payments	-	-89	-294	-570	-860	-1 007	...
Basic balance	2 565	1 785	-858	-1 832	2 050	5 624	...
Short-term capital	-260	-3 745	-1 370	1 297	1 384	-5 558	...
Official sector	-18	8	25	-8	-13	4	...
Commercial banks	-74	37	2	-210	-65	-29	...
Other sectors	-168	-3 790	-1 396	-1 079	-1 306	-5 533	...
Errors and omissions (net)	382	1 997	2 068	4 312	310	-118	...
Balance on capital account	489	-438	2 796	6 696	432	-4 358	1 615
Global balance ^d	2 691	38	-160	1 183	977	-48	2 445
Total variation in reserves ^d (minus sign indicates an increase)	-2 671	-73	171	1 833	-1 104	-61	-2 530
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	2	-1	-19	-52	-135	9	-101
IMF reserve position	-451	-133	64	246	229	-87	-14
Foreign exchange assets	-1 920	413	344	1 507	-1 379	795	-1 446
Other assets	-301	-351	-218	133	182	-777	-969
Use made of IMF credit	-	-	-	-	-	-	-

Source: 1976-1980: International Monetary Fund, *Balance of Payments Yearbook*; 1981: ECLA, on the basis of official data.

^a Preliminary figures.

^b Services also include other official and private transactions, but not profits and interest.

^c In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

^d The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

4. Prices

During 1981 there was a noteworthy and sustained slackening in the rate of inflation. Thus, the December-December variation in the consumer price index for the metropolitan area of Caracas came to 10.8%, which was only a little over half the rates registered in 1979 and 1980. Wholesale prices showed a similar but less marked evolution (see table 14 and figure 2). Despite the marked slackening in the inflationary process, however, the variations between the annual averages of the consumer price index and the wholesale price index, while lower than those registered in 1980, were still above those corresponding to 1979.

The aggregate consumer price index for the main cities of the country likewise showed a December-December growth rate of 11%, well below the rates of 20% and 19% registered in 1979 and 1980, respectively. Of its individual components, those which increased most were household expenditures (14.2%) and food (13%), while the "miscellaneous expenditures" group rose by 8.8% and the "clothing and footwear" group increased by less than 1% after having registered very considerable rises of 33% and 39% in the previous two years. The turnaround in the trend displayed by this latter component was even more marked in the metropolitan area of Caracas, where the average prices for clothing and footwear, which had risen at rates of over 40% in both 1979 and 1980, actually went down slightly in absolute terms in 1981 (see table 14).

The relatively sharp rise in household expenditures was due largely to the increases in telephone and electricity charges decreed in March and May, respectively, and in the higher rents for housing.

Table 12
VENEZUELA: INTERNATIONAL RESERVES
(Millions of dollars)

	Central Bank	Commercial banks	Venezuelan investment fund	Total
At the end of:				
1976	8 570	74	641	9 285
1977	8 154	68	916	9 129
1978	6 438	288	873	7 599
1979	7 740	350	729	8 819
1980	7 025	377	1 483	8 885
1981	8 619	338	2 452	11 409

Source: ECLA, on the basis of statistics from the Central Bank of Venezuela.

Table 13
VENEZUELA: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of dollars)

	End-year balances				
	1977	1978	1979	1980	1981 ^a
Disbursed external public debt ^b	4 715	7 252	8 215	9 655	9 732
Servicing of the debt	979	967	1 425	2 122	2 142
Capital	769	569	865	1 168	890
Interest	212	398	560	954	1 259
Servicing of the debt as a percentage of exports of goods and services	9.6	9.9	9.5	10.6	10.2

Source: ECLA, on the basis of official data and Ministry of Finance, *Memoria*, 1981.

^a Preliminary figures.

^b Excluding the floating debt.

The rise in the food component, for its part, reflected the quite substantial changes which took place in the supply of agricultural products in the course of the year. Thus, as may be seen from figure 2, the downward trend followed since mid-1980 by the growth rate of food prices was almost completely interrupted during the first nine months of 1981, although it resumed vigorously during the last quarter. This evolution was due essentially to the unfavourable weather conditions prevailing during the second half of the year, which played a major part in considerably reducing the harvests and also upsetting the operations of the transport, assembly and storage system for agricultural products, all of which encouraged speculative practices in the distribution system. The marked reduction in the upward movement of this component in the last quarter of the year, for its part, was due to the entry onto the market of the bigger supplies brought in by the Agricultural Marketing Corporation and the harvesting of bigger crops of quick-growing seasonal products such as vegetables.

The virtual stabilization of prices of clothing and footwear was the result of three main causes. First of these was the weakening of demand for these products, attributable to the decline in per capita income and real wages; the second was the diversion of part of this demand towards products of imported origin, and the third was the decision taken by the Government in April to declare many of the products in this group articles of prime necessity, subject to a compulsory 10% reduction in their retail prices.

The incidence of the slow growth of personal income on the rate of inflation was also reflected in the relative differences in the price rises of various groups of consumer goods. As was to be expected, the rises were much greater in the case of non-durable consumer goods (the annual average variation of which was 12% higher than the variation in the total consumer price index), while they were more moderate in the case of semi-durable consumer goods (the increase in which was 11% below the average), and above all in the case of consumer durables (which went up 39% less than the total index).

The influence of the price fixing policy, for its part, was reflected in the fact that the prices of products subject to control rose by less than 6% in the course of the year, whereas those of products whose prices are determined by supply and demand rose by almost 14%.

Table 14
VENEZUELA: EVOLUTION OF PRICES

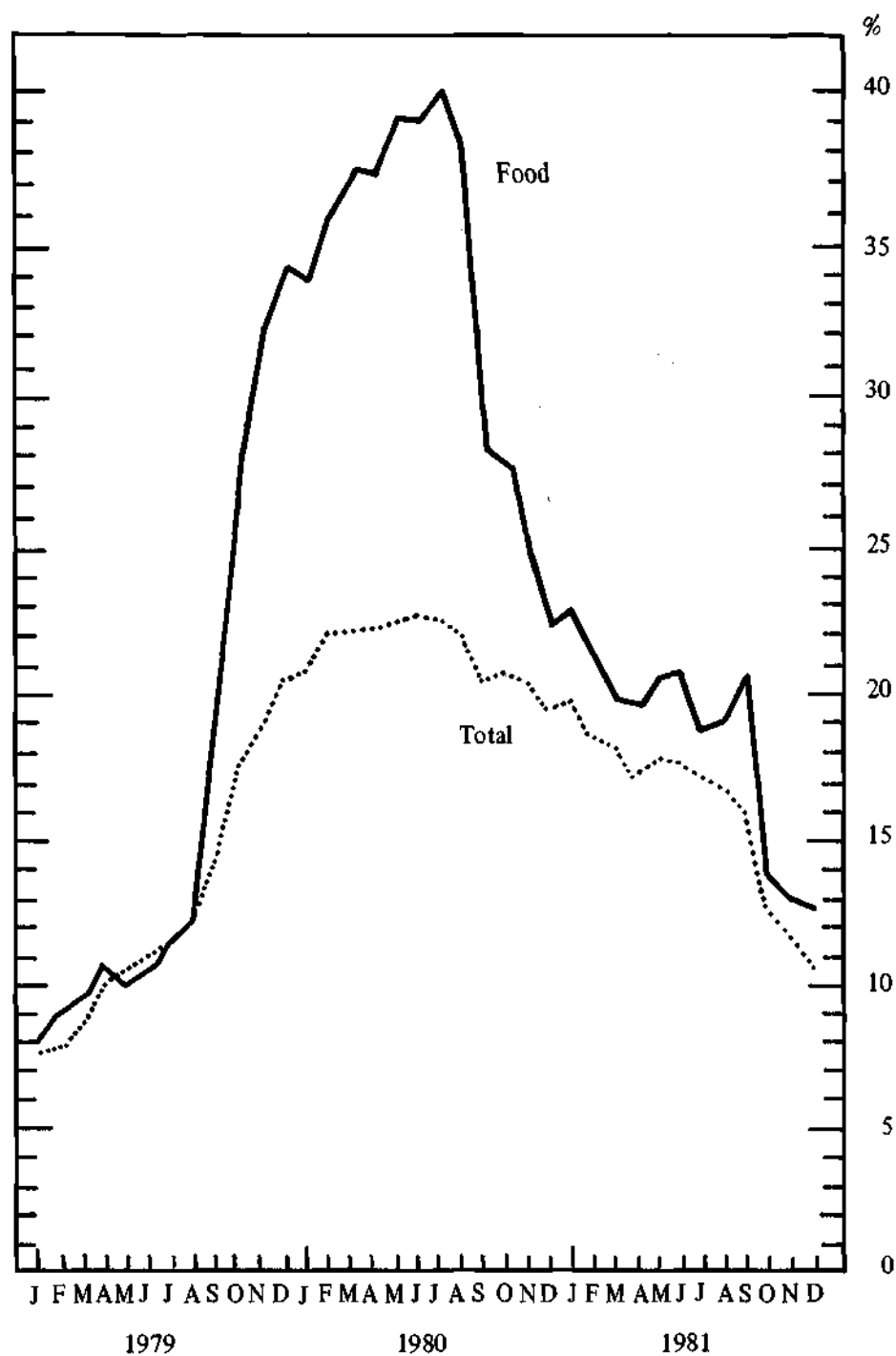
	1976	1977	1978	1979	1980	1981
Variation December to December						
Consumer prices ^a	6.9	8.1	7.0	20.5	19.6	10.8
Food	8.2	14.8	7.0	34.4	22.3	12.7
Clothing	10.4	8.3	12.9	40.2	45.4	-2.2
Wholesale prices	8.8	11.0	5.8	15.4	16.9	11.0
Imported products	10.4	5.1	6.7	11.2	14.2	9.3
Domestic products	7.6	17.0	4.5	18.4	18.6	12.0
Agricultural products	11.9	16.6	0.6	30.3	17.2	12.4
Manufactures	7.9	7.4	2.7	5.8	16.2	10.0
Variation between annual averages						
Consumer prices ^a	7.7	7.8	7.1	12.3	21.6	16.1
Food	8.8	12.3	9.3	16.6	33.1	18.5
Clothing	16.5	10.0	8.5	25.3	46.2	16.2
Wholesale prices	7.2	10.4	7.4	9.3	20.1	13.8
Imported products	6.1	6.9	6.2	7.6	15.6	11.8
Domestic products	8.0	13.4	8.3	10.4	22.9	15.0
Agricultural products	12.3	19.3	5.0	12.6	27.4	19.6
Manufactures	6.2	7.9	7.6	8.1	17.4	11.9

Source: ECLA, on the basis of official statistics.

^aIn the Caracas metropolitan area.

Figure 2

VENEZUELA: TWELVE-MONTHLY VARIATIONS IN DOMESTIC PRICES^a



Source: ECLA, on the basis of official data.

^aConsumer price index for Caracas metropolitan area.

5. Monetary and fiscal policies

(a) *Monetary evolution and policies*

During 1981, the monetary base grew by 16%: more than double the rate of the previous year. The main factors in this expansion were the very considerable increase in absolute terms in the net international reserves of the Central Bank and the high relative growth rate of the loans, investments and advances granted by it to the different sectors of economic activity (see table 15).

Despite the acceleration in the growth rate of the monetary base, the means of payment increased at a much slower pace in 1981 than the previous year. Indeed, their growth of 7% was the lowest registered since 1976 except for the slightly lower figure recorded in 1979. As quasi-money kept up the vigorous growth rate displayed in the previous two years, however, monetary liquidity increased by 20%, that is to say, only slightly more slowly than in 1980 (see table 16).

From the point of view of monetary policy, the most fundamental change in 1981 was that made in the management of interest rates.

Thus, since January 1979 the interest rate policy had been used as a means of discouraging the outflow of short-term capital to the exterior. To this end, the monetary authorities sought to follow closely the trends observed in international financial markets in fixing the interest rate ceilings. Since between that date and the end of 1980 the situation as regards interest rates abroad was very changeable, the monetary authorities had to act quickly, and during 1980 they altered the interest ceilings on five occasions.

At the beginning of March 1981 the Central Bank of Venezuela reduced interest rates, and from then on they were not changed again, in spite of the upward trend observed in this variable on international financial markets. In contrast with the policy applied in 1979 and 1980, this naturally favoured the outflow of short-term capital, and this process contributed to the objective of sterilizing monetary liquidity for anti-inflationary purposes.

Although the outflow of capital during the first eight months of the year was very large, the average level of the international reserves in this period was approximately 36 500 million bolívars, which was only 1.4% below that existing at the end of 1980. In spite of this, the average level of the monetary base over the same period was 21% less than at the end of 1980. This noteworthy decline was due mainly to the fiscal policy of increasing the Government's deposits in the Central Bank. Thus, during the period January-August these amounted on average to 53% more than the deposits which the Government maintained in the Central Bank at the end of the previous year.

Table 15

VENEZUELA: ORIGIN OF THE MONETARY BASE

	End-year balance in millions of bolívars			Growth rates		
	1979	1980	1981 ^a	1979	1980	1981 ^a
1. Factors of expansion	40 593	38 443	47 840	21.5	-5.3	24.4
Net international reserves	32 929	29 972	37 003	20.6	-9.0	23.5
Government securities	890	332	365	76.6	-62.7	9.9
Rediscounts and advances	2 931	2 886	1 515	11.5	-1.5	-47.5
Loans and investment of other assets	3 843	5 253	8 957	29.0	36.7	70.5
2. Factors of contraction	15 305	11 229	16 217	38.7	-26.7	44.4
National Treasury	6 016	2 147	4 338	128.0	-64.3	102.0
Other Government deposits	3 365	3 077	4 173	32.8	-8.6	35.6
Venezuelan investment fund and other special deposits	1 484	363	353	-34.1	-75.5	-2.8
Paid-up capital and reserves	4 440	5 642	7 353	22.9	27.0	30.3
3. Monetary base (1 - 2)	25 288	27 214	31 623	13.0	7.6	16.2

Source: ECLA, on the basis of statistics from the Central Bank of Venezuela.

^aPreliminary figures.

As in the course of this period the gap between domestic and external interest rates grew rapidly and steadily wider (see table 17), however, savings and time deposits grew very slowly. In these circumstances, the monetary authorities decided to replace the discretionary management of interest rates by a system of floating rates freely determined in the financial market. Central Bank control over interest rates was subordinated from then on to the influence exercised through the traditional open market operations. As this decision coincided with a period in which high interest rates prevailed abroad, domestic interest rates rose considerably. This, as well as promoting savings by making them more remunerative in real terms, made bank credit more expensive, and this process was further promoted by the fact that at the same time the Central Bank increased its rediscount rate to 14%.

Table 16

VENEZUELA: EVOLUTION OF THE MEANS OF PAYMENT

	Millions of bolívars				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
Demand deposits	32 196	34 019	37 824	40 175	20.6	5.7	11.1	6.2
Currency outside banks	8 938	9 867	12 091	13 307	22.2	10.4	22.5	10.1
Total means of payment (M ₁)	41 134	43 886	49 915	53 482	21.0	6.7	13.7	7.1
Savings deposits	21 165	22 901	26 070	28 889	19.2	8.2	13.8	10.8
Time deposits and others	10 881	17 256	27 759	42 320	-7.7	58.6	60.8	52.5
Total quasi-money	32 046	40 157	53 829	71 209	8.5	25.3	34.0	32.3
Monetary liquidity (M ₂)	73 180	84 043	103 744	124 691	15.2	14.8	23.4	20.2
Mortgage bonds	14 272	13 593	10 324	7 377	9.8	-4.8	-24.0	-28.5
Expanded liquidity (M ₃)	87 452	97 635	114 068	132 068	14.3	11.6	16.8	15.8

Source: ECLA, on the basis of statistics compiled by the Central Bank of Venezuela.

Note: M₂ = M₁ + quasi-money. M₃ = M₂ + mortgage bonds.

^aPreliminary figures.

Table 17

VENEZUELA: DIFFERENTIALS BETWEEN DOMESTIC AND EXTERNAL INTEREST RATES

(Percentages)

Annual and quarterly averages	United States prime rate ^a	LIBOR ^b	United States three-month certificates of deposit ^c	Three-month Eurodeposits ^d
1980	-1.82	-0.20	-0.11	-0.98
I	-3.14	-1.65	-0.83	-1.45
II	-1.97	1.84	2.26	1.67
III	0.40	1.11	0.81	0.03
IV	-2.60	-2.63	-2.71	-3.35
1981	-4.37	-2.20	-1.55	-2.37
I	-4.67	-2.40	-1.41	-2.18
II	-5.85	-3.81	-3.87	-4.58
III	-6.29	-4.45	-3.30	-4.02
IV	-0.67	1.88	2.37	1.31

Source: ECLA, on the basis of statistics compiled by the Central Bank of Venezuela.

^aOfficial commercial bank rate for loans and discounts, less the prime rate on the United States market.

^bOfficial commercial bank rate for loans and discounts, less LIBOR.

^cAgreed domestic rate for fixed-term deposits, less rate for 90-day Certificates of Deposit in United States.

^dAgreed domestic rate for fixed-term deposits, less rate for 90-day Eurodeposits.

Table 18

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of bolívars				Growth rates			
	1978	1979	1980	1981 ^a	1978	1979	1980	1981 ^a
1. Current income	40 106	50 055	62 697	92 655	-0.9	24.8	25.2	47.8
Petroleum	25 127	33 308	45 331	70 887	-14.5	32.6	36.2	56.4
Direct	6 338	6 347	7 163	10 094	32.8	0.1	12.0	40.9
Indirect and other income	8 645	10 400	10 203	11 674	37.6	20.3	-1.8	14.4
2. Current expenditure	25 107	30 104	35 227	48 303	1.9	19.9	17.0	37.1
Wages and salaries	11 115	12 819	16 485	19 015	9.1	15.3	28.6	15.3
Economic subsidies	813	872	688	3 693	-29.9	7.3	-21.1	436.8
Other current expenditure	13 179	16 413	18 054	25 595	-0.9	24.5	10.0	41.8
3. Saving on current account (1-2)	14 999	19 951	27 470	44 352	-5.2	33.0	37.7	61.5
4. Capital expenditure	18 239	11 707	25 501	33 427	2.2	-35.8	117.8	31.1
Real investment	6 481	3 610	4 381	6 775	12.1	-44.3	21.4	54.6
Financial investment	1 739	1 766	8 788	14 652	-9.8	1.6	397.6	66.7
Other capital expenditure	31	30	12	14	-22.5	-3.2	-56.7	16.7
Transfers	9 987	6 302	12 320	11 986	-1.3	36.9	95.5	-2.7
5. Refinancing operations	1 913	...	...	...	-34.1	...	...	...
6. Servicing of the public debt	5 953	9 147	12 141	12 232	12.3	53.7	32.7	0.7
7. Total expenditure (2 + 4 + 5 + 6)	51 213	50 958	72 869	93 962	1.0	-0.4	43.0	28.9
8. Fiscal deficit	11 107	903	10 172	1 307				
Financing								
External	10 038	70	8 792	2 164				
Domestic	437	-	-	-				
Other	632	833	1 380	-857				

Source: ECLA, on the basis of official data.

^aPreliminary figures.(b) *Fiscal policy*

In 1981 current central government expenditure grew by 37%, which was more than twice the growth rate registered in 1980. This increase originated in the enormous expansion in the amount of subsidies and the policy of providing support for public education services and the running of public, regional and quasi-autonomous bodies, and it took place in spite of the much more moderate increase registered in 1981 in expenditure on wages and salaries. Thus, subsidies (mainly to agriculture and agro-industries) increased more than fivefold, transfers to persons grew by 37%, those to universities and other institutes of higher education rose by 20%, and those made to public, regional and quasi-autonomous bodies were 25% greater than in 1980. Expenditure on wages and salaries, however, rose by only 15%, which was only a little over half the growth rate registered in 1980 (see table 18).

Capital expenditure, for its part, which had more than doubled the year before, increased by a little over 30% in 1981. As in the previous year, its most dynamic component was financial investment, which, after having increased fourfold in 1980, rose by 67% in 1981 because of the bigger petroleum revenue, a certain proportion of which has to be transferred by the State to the Venezuelan Investment Fund.⁹ During the year there was also a sharp (55%) increase in real government investment on construction and projects. Because of the severe drop which this investment had suffered in 1979 when the stabilization policy was put into effect, however, its absolute level was only a little higher than that already achieved in 1978. On the other hand, servicing of the public debt, which had doubled in the previous two years, remained almost constant in 1981.

⁹This fund received over 80% of the central government's financial investments in 1981.

Total central government expenditure, which had remained almost constant between 1977 and 1978 but which had gone up substantially in 1979, thus registered a further considerable increase of close to 30% in 1981.

Current central government income, for its part, increased even faster (48%), mainly because of the extraordinary growth of 56% in the resources coming from the petroleum sector. Among these contributions, those corresponding to taxes on petroleum income exceeded 63 200 million bolívars and were thus 67% higher than in 1980. This result was due to the decision taken by the Government at the end of 1980 to raise the export values of petroleum by 64% with retroactive effect to 1 January (see table 5). This measure considerably raised the income tax obligations of the petroleum sector payable in 1981. In contrast, non-tax revenue from hydrocarbons came to 7 600 million bolívars, which was only 3% more than the year before.

Current non-petroleum fiscal income, for its part, came to 21 700 million bolívars. This represented an increase of 25%, due mainly to the increase of 41% in revenue from direct taxes.

Despite the more rapid expansion of current income than of total expenditure, the fiscal year ended with a deficit of a little over 1 300 million bolívars. However, this was substantially less than the deficit of almost 10 200 million registered in 1980, and was totally financed with external loans (see table 18).

**STATISTICAL
APPENDIX**

A. METHODOLOGICAL NOTE

1. Indexes have been calculated for the effective real exchange rates for exports and imports.
2. In order to calculate the real exchange rate index for exports, the following formula was used:

$$\sum_{i=1}^n (ITCR_{Bi} \cdot W_{Bi}^X)$$

in which

$$ITCR_{Bi} = \frac{ITCN_{Bi}}{IP_{Bi}}$$

and

$$W_{Bi}^X = \frac{X_{Bi}}{\sum_{j=1}^m X_{Bj}}$$

where B corresponds to the country under analysis.¹

$ITCN_{Bi}$ is an index of the exchange rate between the currency of country B and that of country i; for example, number of units of the currency of country B per US dollar, number of units of currency of country B per deutschmark, etc.

IP_{Bi} is an index representing the relationship between the price index of country B and the price index of country i, i.e., an index of the relative inflation as between country B and country i.

$ITCR_{Bi}$ corresponds to an index of the exchange rate between the currency of country B and that of country i, deflated by an index of the relative inflation as between country B and country i.

X_{Bi} are the exports of country B to country i.

$\sum_{j=1}^m X_{Bj}$ represents the total exports of country B.

n are the countries which constitute the main markets for the exports of country B.

m is the total number of countries to which country B exports.

¹Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Paraguay, Peru, Uruguay or Venezuela.

3. In order to calculate the effective real exchange rate index for imports, the following formula was used:

$$\sum_{i=1}^n (ITCR_{Bi} \cdot W_{Bi}^M)$$

in which

$$ITCR_{Bi} = \frac{ITCN_{Bi}}{IP_{Bi}}$$

and

$$W_{Bi}^M = \frac{M_{Bi}}{\sum_{j=1}^m M_{Bj}}$$

where $ITCN_{Bi}$, IP_{Bi} and $ITCR_{Bi}$ correspond exactly with the definition given in section 2 above and

M_{Bi} are the imports of country B from country i.

$$\sum_{j=1}^m M_{Bj} \text{ represents the total imports of country B.}$$

n are the main countries providing imports to country B.

m is the total number of countries from which country B imports.

4. In order to obtain the series of indexes for the nominal exchange rate, the supplement on exchange rates prepared by the International Monetary Fund² was used. This source provides series on the exchange rate between the currency of the country under analysis and the US dollar, as well as series on the exchange rate between the currencies of the other countries with which the country under analysis trades and the US dollar. Using these series, it was possible to calculate exchange rates between the currency of the country under analysis and the currencies of the other countries.
5. The price index used for each country was normally the wholesale price index. When this index was not available, the consumer price index was used. In the case of the oil-exporting countries—but only for the purpose of calculating the effective real exchange rate for imports—the respective price index for petroleum exports was used. The basic data on prices were obtained from the International Monetary Fund.³
6. The weightings used to calculate the effective real exchange rate indexes for exports or imports correspond to the average participation of each of the countries in question in the exports or imports of the country under analysis in the period 1975-1979.⁴ The basic information was obtained from the International Monetary Fund.⁵

²International Monetary Fund, *Supplement on Exchange Rates*, Supplement Series No. 1, 1981, pp. 16-17.

³IMF, *International Financial Statistics* yearbook, 1981, and Vol. XXV, March, April and May 1982.

⁴The remainder (the "other countries" category) were projected *pro rata* on the basis of the countries considered in this calculation.

⁵IMF, *Directions of Trade* yearbook, 1981.

7. All the series have as their base 1980=100. Although the selection of the base year is arbitrary, in any case the evolution of all the series is quite independent of the base year chosen.
8. To sum up, in order to calculate the effective real exchange rate indexes as a function of the geographical composition of exports or imports, the following procedure was used, illustrated here with the data for Peru:
 - (a) Preparation of series on the evolution of the nominal exchange rates: Peruvian soles per unit of currency of the 14 countries which are Peru's main trading partners (see table A).
 - (b) Calculation of series on the evolution of the nominal exchange rate indexes: Peruvian soles per unit of currency of the 14 countries which are Peru's main trading partners (see table B).
 - (c) Computation of series on the evolution of the relative price indexes for Peru with respect to the 14 countries which are its main trading partners (see table C).
 - (d) Preparation of series on the evolution of the real exchange rate indexes. These series were obtained by dividing the series on the nominal exchange rate indexes (table B) by the series on the relative price indexes (table C) and are given in table D.
 - (e) Calculation of Peru's exports to 9 countries or its imports from 12 countries, as percentages of its total exports and imports, respectively (see table E).
 - (f) Calculation of the effective real exchange rate indexes for exports or imports. To this end, the weightings of exports or imports from table E were multiplied by the real exchange rate indexes from table D. The results thus obtained were added together to give the effective real exchange rate indexes for exports or imports (see table F).
9. Finally, it should be noted that in the case of the remaining countries, for reasons of space, the information corresponding to tables A, B and C has been omitted and only that from tables D, E and F is given, which are in these cases denominated 1, 2 and 3, respectively.

B. STATISTICAL SERIES

C. FIGURES

Evolution of effective real exchange rate indexes for:

- exports
- imports

Table 1
ARGENTINA: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a
 (1980 = 100)

Annual averages	Argentine pesos per:					
	US dollar	Pound sterling	French franc	Deutsch-mark	Italian lira	Dutch guilder
1970	172.55	119.96	128.20	127.38	137.67	113.34
1971	151.42	113.77	115.13	119.51	122.18	107.90
1972	166.11	131.03	140.66	144.64	142.09	132.96
1973	196.68	106.01	129.27	139.61	125.70	124.26
1974	136.24	94.61	109.55	124.32	127.94	114.28
1975	209.99	156.81	193.69	195.70	195.08	189.52
1976	139.12	93.99	120.76	126.14	120.04	125.19
1977	172.50	123.54	150.25	165.84	154.01	167.63
1978	148.01	116.91	142.02	156.72	138.24	157.72
1979	110.30	97.16	110.41	118.57	107.99	116.91
1980	100.00	100.00	100.00	100.00	100.00	100.00
1981	124.68	111.64	100.95	97.54	107.72	97.15
	Japanese yen	Spanish peseta	Brazilian cruzeiro	Chilean peso	Uruguayan peso	
1970	128.75	106.71	192.88	140.00	118.46	
1971	111.79	98.74	174.29	238.09	116.95	
1972	135.78	120.90	193.33	225.00	107.31	
1973	132.62	112.27	163.22	182.14	112.14	
1974	130.78	105.96	154.39	113.74	116.09	
1975	187.04	175.65	232.20	129.39	149.46	
1976	124.49	109.90	160.48	103.27	96.52	
1977	163.60	140.54	200.98	156.34	121.04	
1978	161.93	131.22	172.37	126.84	111.11	
1979	110.49	116.19	119.05	97.48	102.65	
1980	100.00	100.00	100.00	100.00	100.00	
1981	119.60	101.73	132.98	136.92	139.25	

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Argentina, the wholesale price index was used.

Table 2

ARGENTINA: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Argentina	Imports from each country as a percentage of total imports of Argentina
United States	7.5	18.9
United Kingdom	2.9	3.8
France	2.9	4.0
Federal Republic of Germany	5.5	10.2
Italy	8.4	5.6
Netherlands	9.8	1.9
Japan	5.3	8.0
Spain	5.4	2.7
Brazil	9.6	9.7
Chile	3.5	4.2
Uruguay	2.1	0.8
Others	37.1	30.2
Total	100.0	100.0

^aOnly those countries whose exports or imports average 2.0% or more of the value of Argentina's total exports or imports over the period 1975-1979 were considered.

Table 3

**ARGENTINA: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES
FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual averages	Exports	Imports
1970	140.4	148.8
1971	133.8	140.5
1972	152.1	158.2
1973	142.3	154.7
1974	125.3	128.5
1975	192.3	195.9
1976	126.4	129.3
1977	163.6	166.1
1978	148.3	149.3
1979	112.0	111.4
1980	100.0	100.0
1981	114.1	117.1

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1). The products are added together to give the effective real exchange rate indexes.

Table 1

BOLIVIA: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a

(1980 = 100)

Annual averages	Bolivian pesos per:				
	US dollar	Japanese yen	French franc	Deutsch-mark	Dutch guilder
1970	111.91	83.46	83.10	82.55	73.79
1971	111.08	81.97	84.47	87.69	79.17
1972	121.97	99.67	103.29	106.19	97.63
1973	157.84	147.51	143.75	155.27	138.15
1974	115.51	110.89	92.89	105.41	97.36
1975	116.75	103.99	107.68	108.80	105.37
1976	116.98	104.69	101.55	106.08	105.28
1977	114.77	108.85	99.97	110.34	111.53
1978	112.11	122.65	107.57	118.71	119.46
1979	107.46	107.64	107.56	115.52	113.90
1980	100.00	100.00	100.00	100.00	100.00
1981	82.51	79.15	66.81	64.55	64.29
	Swiss franc	Pound sterling	Argentine peso	Brazilian cruzeiro	Chilean peso
1970	65.17	77.77	64.83	125.05	90.76
1971	69.95	83.45	69.57	127.86	174.66
1972	84.51	96.19	73.42	141.94	165.19
1973	126.81	117.88	111.19	181.50	202.53
1974	90.98	80.23	84.70	130.92	96.45
1975	103.68	87.17	55.59	129.09	71.93
1976	104.28	79.04	84.09	134.95	86.84
1977	101.89	82.20	66.53	133.72	104.02
1978	125.10	88.55	75.74	130.56	96.07
1979	118.62	94.65	97.42	115.99	94.97
1980	100.00	100.00	100.00	100.00	100.00
1981	68.76	73.88	66.17	88.00	90.61

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Bolivia, the wholesale price index was used.

Table 2

BOLIVIA: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Bolivia	Imports from each country as a percentage of total imports of Bolivia
United States	32.3	24.3
Japan	3.0	12.5
France	2.3	1.4
Federal Republic of Germany	4.0	8.2
Netherlands	3.3	1.6
Switzerland	3.1	1.7
United Kingdom	10.7	2.7
Argentina	19.9	13.4
Brazil	5.1	12.7
Chile	2.1	2.6
Others	14.2	18.9
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 2.0% or more of the value of Bolivia's total exports or imports over the period 1975-1979 were considered.

Table 3

BOLIVIA: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS^a

(1980 = 100)

Annual averages	Exports	Imports
1970	90.8	96.8
1971	95.1	99.2
1972	105.5	111.0
1973	141.9	150.8
1974	101.7	108.1
1975	96.6	102.7
1976	102.8	108.4
1977	99.1	106.4
1978	102.8	110.3
1979	104.8	107.5
1980	100.0	100.0
1981	75.6	77.4

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1). The products are added together to give the effective real exchange rate indexes.

Table 1
BRAZIL: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a
 (1980 = 100)

Annual averages	Brazilian cruzeiros per:						
	US dollar	Canadian dollar	Japanese yen	Deutsch-mark	Spanish peseta	French franc	
1970	82.15	103.35	61.30	60.62	62.98	60.92	
1971	81.13	105.06	59.83	63.87	64.11	61.62	
1972	81.28	107.78	66.37	70.67	70.80	103.02	
1973	82.58	103.07	77.08	80.99	77.37	74.95	
1974	84.52	100.71	81.15	77.11	79.37	67.99	
1975	86.46	100.39	76.98	80.42	84.07	79.79	
1976	84.08	103.49	75.21	76.20	77.33	72.91	
1977	82.89	96.27	78.64	79.56	74.14	72.08	
1978	82.34	90.07	90.09	87.07	77.08	78.86	
1979	89.76	92.76	89.91	96.18	94.53	89.71	
1980	100.00	100.00	100.00	100.00	100.00	100.00	
1981	91.79	92.29	88.05	71.69	74.82	74.19	
	Italian lira	Dutch guilder	Pound sterling	Swiss franc	Argentine peso	Chilean peso	
1970	65.44	54.22	57.13	55.24	46.28	82.61	
1971	65.51	57.62	60.93	57.55	50.78	100.04	
1972	69.35	64.93	64.06	61.89	48.52	119.92	
1973	73.04	72.32	61.61	72.78	57.05	105.04	
1974	79.39	70.97	58.74	75.92	62.46	72.15	
1975	80.27	78.02	64.63	83.01	41.45	54.83	
1976	72.49	75.50	56.86	78.83	60.37	63.82	
1977	74.03	80.42	59.42	76.16	48.06	76.86	
1978	76.85	87.43	65.16	92.96	55.77	72.22	
1979	87.85	95.22	79.06	98.83	81.39	79.33	
1980	100.00	100.00	100.00	100.00	100.00	100.00	
1981	73.51	71.57	82.16	75.87	73.87	100.75	
	Mexican peso	Para-guayan guaraní	Vene-zuelan bolívar	Saudi Arabian riyal	Iranian rial	Iraqi dinar	Kuwait dinar
1970	74.60	43.20	74.21	8.10	8.09	7.97	7.10
1971	74.05	46.55	72.49	9.51	9.64	9.72	8.85
1972	72.97	52.88	73.10	10.54	10.21	11.15	9.71
1973	75.94	65.55	71.94	14.55	13.64	14.66	13.45
1974	80.11	73.70	72.74	46.43	43.79	47.16	45.99
1975	82.85	79.47	77.80	47.16	43.97	47.16	43.97
1976	76.34	74.70	78.03	46.75	41.90	46.87	43.06
1977	68.40	74.96	81.43	46.58	42.60	47.82	44.85
1978	72.31	77.90	80.69	45.58	39.32	43.94	42.56
1979	82.74	95.31	86.30	59.56	57.54	62.92	62.05
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1981	98.26	90.36	97.75	93.72	80.38	98.52	95.99

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Brazil, the general price index (domestic availability) was used. This is a weighted average of the wholesale price index (60%), the Rio de Janeiro cost-of-living index (30%), and the index of construction costs for Rio (10%).

Table 2

BRAZIL: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Brazil	Imports from each country as a percentage of total imports of Brazil
United States	18.9	21.1
Canada	^b	2.3
Japan	6.0	7.6
Federal Republic of Germany	8.3	8.6
Spain	3.2	^b
France	3.8	3.0
Italy	4.5	2.7
Netherlands	6.8	1.7
United Kingdom	4.0	2.5
Switzerland	^b	1.8
Argentina	3.7	3.7
Chile	1.5	1.9
Mexico	1.5	^b
Paraguay	1.7	^b
Venezuela	1.5	^b
Saudi Arabia	^b	9.6
Iran	^b	3.2
Iraq	^b	9.8
Kuwait	^b	2.9
Others	34.6	17.6
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 1.5% or more of the value of Brazil's total exports or imports over the period 1975-1979 were considered (excluding Poland and the Soviet Union).

^bAmount below 1.5%.

Table 3

BRAZIL: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS^a

(1980 = 100)

Annual averages	Exports	Imports
1970	66.4	50.7
1971	67.7	52.1
1972	73.7	56.2
1973	76.4	59.1
1974	76.6	68.8
1975	77.9	68.8
1976	75.6	67.7
1977	76.1	67.9
1978	80.2	69.9
1979	89.8	80.9
1980	100.0	100.0
1981	82.5	87.2

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1). The products are added together to give the effective real exchange rate indexes.

Table 1

COLOMBIA: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a

(1980 = 100)

Annual and quarterly averages	Colombian pesos per:							
	US dollar	Canadian dollar	Japanese yen	Deutsch- mark	Spanish peseta	French franc	Italian lira	
1970	134.30	168.95	100.20	99.10	103.00	99.59	106.96	
1971	134.45	174.13	99.18	105.87	106.31	102.12	108.47	
1972	130.20	172.64	106.28	113.19	113.45	109.89	111.12	
1973	124.37	155.24	116.10	121.99	116.58	112.89	109.89	
1974	119.82	142.78	115.00	109.32	112.70	96.38	112.62	
1975	123.85	143.80	110.27	115.20	120.49	114.29	115.07	
1976	118.23	145.52	105.78	107.16	108.80	102.53	101.98	
1977	104.98	121.92	99.63	100.76	93.93	91.29	93.82	
1978	102.28	111.90	111.94	108.16	95.79	97.97	95.54	
1979	97.99	101.28	99.19	105.00	103.26	97.94	95.90	
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
I	100.35	100.27	93.43	104.83	106.05	101.30	103.14	
II	98.92	99.02	98.95	100.79	99.80	99.35	100.00	
III	100.69	101.44	103.88	102.07	100.38	103.33	101.74	
IV	100.68	99.91	105.52	93.61	95.37	96.91	96.16	
1981	101.33	101.88	97.21	79.14	82.64	81.90	81.57	
I	101.19	100.91	105.97	86.36	89.43	89.57	89.45	
II	101.66	100.63	97.17	78.30	82.43	80.58	80.66	
III	101.51	101.56	92.65	73.48	78.49	77.42	77.18	
IV	100.27	104.58	94.37	79.62	81.60	81.19	80.52	
	Dutch guilder	Swedish krona	Swiss franc	Finnish markka	Pound sterling	Brazilian cruzeiro	Vene- zuelan bolivar	
1970	88.64	102.42	90.30	96.02	93.39	151.88	117.01	
1971	95.51	103.96	95.39	97.94	100.99	153.37	115.88	
1972	104.00	108.14	99.12	98.96	102.61	150.35	112.94	
1973	108.93	109.89	109.61	106.70	92.79	143.83	104.51	
1974	100.61	109.84	107.63	108.87	83.26	135.78	99.45	
1975	111.77	118.16	118.91	120.03	92.59	136.50	107.48	
1976	106.17	112.06	110.85	112.84	79.96	135.95	105.83	
1977	101.84	99.49	96.45	99.75	75.26	122.24	99.48	
1978	108.62	95.89	115.49	93.09	80.95	118.95	96.68	
1979	103.96	96.80	107.90	91.96	86.32	105.89	90.89	
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
I	103.24	101.25	103.11	96.95	95.33	88.20	99.05	
II	99.92	99.51	99.79	99.70	98.70	92.46	98.18	
III	102.83	102.23	102.16	103.68	103.60	102.97	101.05	
IV	95.17	98.39	95.85	100.22	103.52	110.94	102.12	
1981	79.01	86.61	83.73	91.16	90.70	109.47	106.86	
I	86.60	94.91	87.55	97.03	101.22	114.52	104.08	
II	77.51	88.04	80.40	90.78	92.86	112.34	105.96	
III	72.95	82.48	78.07	86.62	82.62	108.17	109.67	
IV	80.41	81.27	90.11	91.09	85.79	104.82	107.89	

^a Corresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Colombia, the wholesale price index was used.

Table 2

COLOMBIA: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1974-1978)

Country	Exports to each country as a percentage of total exports of Colombia	Imports from each country as a percentage of total imports of Colombia
United States	32.4	39.3
Canada	^b	2.9
Japan	2.8	9.5
Federal Republic of Germany	17.1	8.6
Spain	2.6	3.1
France	2.5	4.0
Italy	^b	2.5
Netherlands	5.5	^b
Sweden	3.5	^b
Switzerland	^b	2.5
Finland	2.5	^b
United Kingdom	^b	3.6
Brazil	^b	2.6
Venezuela	6.3	2.8
Others	24.8	18.6
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 2.5% or more of the value of Colombia's total exports or imports over the period 1974-1978 were considered.^bAmount below 2.5%.

Table 3

**COLOMBIA: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE
INDEXES FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual and quarterly averages	Exports	Imports
1970	115.3	121.0
1971	117.6	122.4
1972	118.8	122.9
1973	118.9	120.8
1974	112.3	115.1
1975	118.2	119.5
1976	112.0	113.1
1977	102.0	102.0
1978	103.1	103.4
1979	99.3	98.6
1980	100.0	100.0
I	101.3	99.9
II	99.5	99.1
III	101.7	101.6
IV	98.4	100.5
1981	92.7	95.7
I	96.4	99.4
II	92.5	95.6
III	90.5	93.6
IV	92.0	94.6

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1). The products are added together to give the effective real exchange rate indexes.

Table 1A
COSTA RICA: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a
(1980 = 100)

Annual and quarterly averages	Costa Rican colones per:						
	US dollar	Japanese yen	Deutsch- mark	Belgian franc	Finnish markka	Dutch guilder	Pound sterling
1970	129.91	96.76	95.87	112.01	92.87	85.75	90.33
1971	126.11	93.13	99.28	107.09	91.85	89.57	94.72
1972	124.96	102.10	108.65	116.47	94.98	99.83	98.48
1973	121.80	113.84	119.46	127.42	104.49	106.66	90.87
1974	123.97	118.80	113.10	127.54	112.64	104.10	86.15
1975	119.92	106.85	111.55	121.02	116.22	108.23	89.65
1976	114.77	102.65	104.01	112.99	109.52	103.05	77.61
1977	113.28	107.41	108.72	115.94	107.65	109.90	81.20
1978	113.39	123.98	119.91	120.11	103.18	120.41	89.74
1979	108.63	108.79	116.40	116.80	101.93	115.25	95.68
I	111.88	120.03	122.42	123.66	103.37	122.71	92.27
II	110.27	110.29	115.60	116.22	100.31	114.93	93.99
III	107.77	109.02	115.74	115.77	102.81	113.71	101.90
IV	105.07	98.05	113.06	112.64	101.69	110.88	95.49
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I	102.94	95.87	107.53	108.37	99.45	105.91	97.79
II	100.33	100.27	102.23	101.97	101.12	101.34	100.12
III	100.04	103.07	101.42	100.51	103.01	102.16	102.93
IV	97.12	101.83	90.31	90.68	96.68	91.81	99.86
1981	179.93	172.62	140.53	140.55	161.87	140.31	161.06
I	154.80	160.46	130.83	130.89	146.99	131.20	153.35
II	168.61	161.06	129.79	130.13	150.47	128.48	153.93
III	149.62	136.53	108.31	110.18	127.67	107.52	121.78
IV	231.97	218.32	184.19	180.51	210.73	186.02	198.46
	El Sal- vador colón	Guate- malan quetzal	Honduran lempira	Mexican peso	Nicaraguan córdova	Panama- nian balboa	Vene- zuelan bolívar
1970	110.58	119.61	148.32	117.97	127.17	105.20	113.17
1971	98.29	114.18	142.58	115.12	120.72	104.23	108.67
1972	98.57	108.13	142.44	112.18	118.03	107.14	108.39
1973	102.97	106.44	128.37	112.01	115.80	102.07	102.35
1974	110.47	111.92	124.68	117.50	115.31	113.93	102.90
1975	99.57	111.30	117.40	114.92	109.75	114.98	104.07
1976	122.71	112.53	112.57	104.21	103.23	113.40	102.72
1977	125.75	118.30	113.51	93.49	106.95	113.02	107.34
1978	125.06	113.76	111.83	99.58	103.85	110.62	107.17
1979	120.59	106.81	107.14	100.15	99.40	107.33	100.75
I	111.11	109.11	110.30	102.23	100.15	107.86	104.19
II	119.82	107.67	106.73	101.05	93.34	110.75	101.37
III	128.18	106.55	106.59	99.87	104.57	107.65	98.91
IV	122.26	104.27	105.11	97.63	96.82	103.66	98.81
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I	106.33	101.75	103.91	99.37	96.03	102.51	101.60
II	105.58	100.58	101.41	99.08	102.38	100.78	99.58
III	100.00	100.64	99.26	102.13	101.54	100.17	100.39
IV	89.35	97.49	95.97	99.30	99.80	96.86	98.50
1981	173.29	184.44	182.45	192.62	207.21	181.47	189.65
I	143.51	159.10	155.06	161.83	162.25	156.40	157.68
II	162.99	176.98	169.09	178.02	187.23	168.21	175.63
III	145.16	154.14	152.89	160.13	176.52	150.07	159.28
IV	228.60	229.95	238.66	256.18	293.06	237.02	252.79

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Costa Rica, the wholesale price index was used.

Table 1B
COSTA RICA: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a
(1980 = 100)

Annual and quarterly averages	Costa Rican colones per:						
	US dollar	Japanese yen	Deutsch- mark	Belgian franc	Finnish marka	Dutch guilder	Pound sterling
1970	88.95	66.27	65.66	76.71	63.61	58.72	61.86
1971	89.21	65.88	70.23	75.75	64.97	63.35	67.00
1972	89.07	72.78	77.45	83.04	67.71	71.15	70.21
1973	87.50	81.79	85.82	91.53	75.07	76.62	65.28
1974	95.71	91.72	87.33	98.47	86.96	80.37	66.51
1975	95.96	85.51	89.26	96.84	93.00	86.60	71.74
1976	96.98	86.75	87.90	95.48	92.55	87.08	65.59
1977	98.81	93.68	94.84	101.13	93.88	95.86	70.84
1978	100.49	109.88	106.28	106.46	91.46	106.72	79.54
1979	103.57	103.73	110.99	111.36	97.19	109.88	91.24
I	102.78	110.27	112.47	113.61	94.97	112.72	84.78
II	104.13	104.16	109.17	109.76	94.73	108.53	88.77
III	104.44	105.64	112.16	112.19	99.62	110.18	98.75
IV	102.86	95.99	110.70	110.27	99.56	108.56	93.51
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I	102.10	95.09	106.66	107.49	98.64	105.03	96.99
II	100.00	99.95	101.89	101.64	100.78	101.00	99.79
III	99.86	102.88	101.24	100.34	102.83	101.99	102.75
IV	98.24	103.01	91.35	91.73	97.80	92.87	101.03
1981	202.06	193.87	157.83	157.85	181.79	157.57	180.89
I	163.78	169.77	138.43	138.48	155.52	138.80	162.25
II	189.01	180.66	145.59	145.96	168.77	144.11	172.68
III	171.78	156.75	124.35	126.50	146.58	123.44	139.81
IV	266.31	250.62	211.46	207.23	241.91	213.54	227.85
	El Sal- vador colón	Guate- malan quetzal	Honduran lempira	Mexican peso	Nicaraguan cordova	Panama- nian balboa	Vene- zuelan bolívar
1970	75.74	81.90	101.59	80.78	87.08	72.05	77.51
1971	69.52	80.76	100.87	81.42	85.39	73.73	76.88
1972	70.27	77.08	101.55	79.96	84.14	76.38	77.27
1973	73.97	76.46	92.22	80.46	83.18	73.32	73.52
1974	85.29	86.40	96.26	90.71	89.02	87.96	79.45
1975	79.68	89.06	93.95	91.95	87.82	92.01	83.29
1976	103.70	95.08	95.13	88.05	87.23	95.83	86.81
1977	109.69	103.19	99.01	81.53	93.28	98.59	93.63
1978	110.84	100.83	99.12	88.24	92.04	98.05	95.00
1979	115.00	101.83	102.15	95.48	94.77	102.34	96.06
I	102.09	100.24	101.34	93.92	92.01	99.10	95.73
II	113.15	101.68	100.79	95.41	88.15	104.59	95.74
III	124.21	103.25	103.30	96.77	101.32	104.32	95.85
IV	119.69	102.09	102.91	95.59	94.78	101.49	96.74
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I	105.45	100.91	103.07	98.56	95.24	101.67	100.78
II	105.23	100.24	101.08	98.74	102.03	100.45	99.25
III	99.82	100.46	99.09	101.93	101.35	99.99	100.22
IV	90.38	98.62	97.09	100.43	100.95	97.99	99.65
1981	194.64	207.13	204.91	216.31	232.69	203.82	213.00
I	151.83	168.33	164.07	171.19	171.65	165.47	166.82
II	182.84	198.51	189.69	199.66	210.03	188.68	197.02
III	166.66	176.95	175.54	183.83	202.65	172.29	182.88
IV	262.45	263.96	273.99	294.09	336.39	272.10	290.21

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Costa Rica, the consumer prices index was used.

Table 2

COSTA RICA: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Costa Rica	Imports from each country as a percentage of total imports of Costa Rica
United States	35.9	33.2
Japan	^b	12.4
Federal Republic of Germany	12.3	5.3
Belgium	3.1	^b
Finland	3.5	^b
Netherlands	4.9	^b
United Kingdom	^b	2.5
El Salvador	5.7	5.7
Guatemala	6.7	6.0
Honduras	2.5	^b
Mexico	^b	3.1
Nicaragua	6.1	4.6
Panama	3.3	^b
Venezuela	^b	4.1
Others	16.0	23.7
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 2.5% or more of the value of Costa Rica's total exports or imports over the period 1975-1979 were considered.

^bAmount below 2.5%.

Table 3

COSTA RICA: EVOLUTION OF EFFECTIVE NOMINAL AND REAL
EXCHANGE RATES INDEXES FOR EXPORTS AND IMPORTS

(1980 = 100)

Annual and quarterly average	Effective nominal exchange rate index for:		Effective real exchange rate index for:			
	Exports	Imports	Exports		Imports	
	(1) ^a	(2) ^a	(3) ^b	(4) ^c	(5) ^b	(6) ^c
1970	70.7	74.6	117.4	80.4	117.2	80.3
1971	71.1	75.1	114.3	80.9	113.4	80.2
1972	72.0	76.7	115.7	82.5	114.3	81.5
1973	74.3	78.5	116.5	83.7	115.1	82.6
1974	89.4	93.1	118.0	91.1	117.4	90.6
1975	97.4	100.2	114.8	91.9	112.5	90.0
1976	96.5	98.1	111.6	94.3	109.4	92.5
1977	97.9	97.8	113.1	98.6	110.7	96.5
1978	100.6	102.6	114.5	101.5	114.1	101.2
1979	100.2	100.8	110.1	104.9	108.1	103.1
I	102.5	104.1	112.8	103.6	111.5	102.4
II	98.9	100.2	110.2	104.1	108.7	102.6
III	99.9	100.5	110.4	107.0	108.6	105.2
IV	100.6	99.2	107.2	104.9	104.1	101.9
1980	100.0	100.0	100.0	100.0	100.0	100.0
I	100.5	99.0	103.5	102.6	101.5	100.6
II	100.1	99.6	101.4	101.0	100.8	100.5
III	100.7	100.7	100.6	100.5	101.0	100.8
IV	98.8	101.0	95.2	96.3	97.4	98.5
1981	240.2	249.9	171.7	192.8	178.0	199.9
I	170.8	178.0	148.9	158.7	154.5	163.4
II	206.3	215.3	160.0	179.5	166.3	186.6
III	204.9	213.4	140.9	161.7	146.3	168.0
IV	378.8	391.4	224.0	257.1	230.7	264.9

^a These indexes were obtained by multiplying the weightings of exports or imports (table 2) by the nominal exchange rate indexes. The products are added together to give the effective nominal exchange rate indexes.

^b These indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1A). The products are added together to give the effective real exchange rate indexes. In calculating these indexes for Costa Rica, the wholesale price index was used.

^c A similar procedure to that described in footnote ^b, was employed, except that table 1B and the consumer price index were used.

Table 1A
CHILE: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a
(1980 = 100)

Annual and quarterly averages	Chilean pesos per:						
	US dollar	Japanese yen	Deutsch-mark	Belgien franc	Spanish peseta	French franc	Italian lira
1970	166.49	110.13	120.47	142.86	126.21	125.00	137.19
1971	146.67	96.67	121.05	128.97	116.36	114.56	123.31
1972	149.13	128.39	128.63	137.55	128.96	125.81	111.13
1973	156.98	147.16	154.51	164.89	148.12	142.71	139.07
1974	136.37	130.96	124.40	140.27	128.21	109.68	128.13
1975	150.04	133.61	139.56	151.44	145.97	138.46	139.27
1976	127.94	114.44	115.94	125.96	117.72	110.94	110.25
1977	122.58	116.28	117.64	125.46	109.69	106.59	109.47
1978	133.92	146.53	141.62	141.90	125.42	128.27	124.98
1979	117.22	117.42	125.61	126.05	123.52	117.16	114.73
I	129.47	139.04	141.66	143.09	130.67	129.65	123.05
II	123.06	123.03	129.00	129.72	129.31	119.34	117.12
III	112.80	113.97	121.13	121.19	122.00	113.16	112.56
IV	109.15	101.91	117.46	117.04	117.40	111.19	110.59
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I	109.79	102.22	114.68	115.57	116.02	110.82	112.84
II	102.09	102.12	104.02	103.76	102.99	102.53	103.12
III	96.94	99.99	98.28	97.42	96.66	99.49	97.86
IV	93.34	97.82	86.79	87.16	88.42	89.85	89.10
1981	99.03	95.00	77.35	77.37	80.76	80.04	79.77
I	95.79	99.32	80.96	81.01	83.84	83.96	83.86
II	98.61	94.25	75.95	76.16	79.97	78.16	78.20
III	99.60	90.90	72.10	73.36	77.02	75.97	75.73
IV	102.27	96.25	81.20	79.59	83.23	82.80	82.16
	Dutch guilder	Pound sterling	Argentine peso	Brazilian cruzeiro	Ecuadorian sucre	Iranian rial	Venezuelan bolívar
1970	109.09	114.03	94.38	187.21	154.62	20.80	146.31
1971	102.98	111.76	93.04	174.86	119.78	22.60	127.47
1972	116.61	117.45	87.64	172.33	119.03	21.44	127.58
1973	137.69	117.46	108.83	181.46	124.93	25.71	132.03
1974	114.48	94.75	100.90	154.50	114.71	70.64	113.14
1975	135.40	112.16	72.04	165.39	131.59	76.30	130.21
1976	114.87	86.52	91.95	147.11	125.22	63.75	114.51
1977	118.92	87.87	71.14	142.74	122.25	63.00	116.14
1978	142.21	105.98	90.91	155.75	144.65	63.95	126.58
1979	124.36	103.25	106.53	126.67	124.58	75.14	108.71
I	141.99	106.78	103.73	144.80	139.21	60.58	120.57
II	128.25	104.89	105.20	133.96	130.68	71.44	113.12
III	118.99	106.65	109.08	123.66	119.79	78.82	103.51
IV	115.18	99.21	103.74	111.52	114.76	87.17	102.65
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I	112.94	104.29	101.97	96.49	112.51	106.13	108.35
II	103.12	101.87	99.53	95.44	103.13	106.77	101.32
III	99.00	99.74	98.56	99.16	95.45	98.64	97.28
IV	88.24	95.98	99.28	102.86	91.65	90.66	94.67
1981	77.22	88.65	79.89	107.02	98.18	86.72	105.00
I	81.19	94.89	96.81	107.35	94.34	91.39	99.85
II	75.18	90.08	75.04	108.98	96.03	87.36	102.78
III	71.57	81.07	77.12	106.13	97.96	84.07	106.03
IV	82.01	87.50	79.52	106.93	104.62	84.38	111.44

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Chile, the wholesale price index for domestic products was used.

Table 1B
CHILE: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a
 (1980 = 100)

Annual and quarterly averages	Chilean pesos per:						
	US dollar	Japanese yen	Deutsch- mark	Belgian franc	Spanish peseta	French franc	Italian lira
1970	99.04	66.92	73.21	84.11	76.34	74.37	82.83
1971	80.42	51.79	63.39	69.26	63.62	61.46	67.13
1972	67.59	58.82	58.99	62.29	59.13	57.12	50.81
1973	78.68	73.72	77.07	82.26	73.83	71.28	69.38
1974	117.12	112.53	106.86	120.55	110.18	94.21	110.09
1975	157.69	140.43	146.68	159.16	153.42	145.52	146.37
1976	131.75	117.84	119.39	129.71	121.23	114.24	113.53
1977	107.84	102.31	103.50	110.38	96.50	93.78	96.32
1978	114.00	124.73	120.55	120.80	106.77	109.19	106.39
1979	113.15	113.34	121.24	121.67	119.23	113.09	110.75
I	114.68	123.17	125.49	126.75	115.75	114.84	109.00
II	115.10	115.08	120.66	121.33	120.95	111.62	109.54
III	115.07	116.27	123.57	123.63	124.46	115.44	114.83
IV	109.29	102.04	117.60	117.18	117.55	111.32	110.73
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I	107.15	99.77	111.93	112.80	113.23	108.16	110.13
II	101.80	101.83	103.73	103.47	102.70	102.25	102.83
III	98.81	101.91	100.17	99.30	98.52	101.40	99.74
IV	93.72	98.22	87.15	87.52	88.78	90.22	89.46
1981	91.10	87.40	71.16	71.18	74.30	73.63	73.38
I	92.45	95.86	78.14	78.18	80.92	81.04	80.94
II	92.13	88.05	70.96	71.16	74.71	73.02	73.06
III	90.79	82.85	65.72	66.87	70.20	69.25	69.02
IV	89.27	84.02	70.88	69.48	72.65	72.27	71.72
	Dutch guilder	Pound sterling	Argentine peso	Brazilian cruzeiro	Ecuadorian sucre	Iranian rial	Vene- zuelan bolivar
1970	65.37	69.21	56.77	111.63	91.89	12.48	87.10
1971	56.54	61.06	50.58	93.20	65.24	12.27	70.05
1972	54.11	53.75	39.82	78.87	54.17	9.74	58.37
1973	68.80	58.65	54.34	90.86	62.36	12.86	66.12
1974	98.35	81.41	86.70	132.72	98.57	60.68	97.23
1975	142.31	117.88	75.71	173.82	138.30	80.19	136.85
1976	118.29	89.10	94.69	151.49	128.94	65.65	117.91
1977	104.62	77.31	62.59	125.59	107.56	55.43	102.18
1978	121.06	90.22	77.37	132.58	123.14	54.44	107.75
1979	120.04	99.66	102.80	122.26	120.25	72.53	104.94
I	125.78	94.59	91.87	128.27	123.31	53.66	106.81
II	119.96	98.11	98.45	125.30	122.23	66.82	105.81
III	121.39	108.80	111.31	126.15	122.21	80.41	105.59
IV	115.33	99.33	103.85	111.66	114.91	87.27	102.77
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
I	110.22	101.78	99.56	94.17	109.81	103.58	105.75
II	102.83	101.58	99.23	95.17	102.84	106.46	101.03
III	100.90	101.66	100.45	101.06	97.29	100.54	99.15
IV	88.60	96.37	99.70	103.28	92.02	91.03	95.06
1981	71.04	81.55	73.51	98.45	90.32	79.78	96.60
I	78.36	91.58	93.41	103.61	91.05	88.21	96.37
II	70.24	84.16	70.10	101.82	89.72	81.61	96.02
III	65.24	73.89	70.29	96.75	89.29	76.63	96.64
IV	71.58	76.37	69.36	93.34	91.32	73.66	97.28

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Chile, the following price indexes were used: 1971-1973 - corrected consumer price index of J. Yáñez; 1974-1978 - corrected consumer price index of R. Cortázar and J. Marshall; 1979-1981 - consumer price index of the National Statistical Institute (INE).

Table 2

CHILE: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Chile	Imports from each country as a percentage of total imports of Chile
United States	11.3	24.2
Japan	11.3	8.4
Federal Republic of Germany	14.7	7.1
Belgium	3.3	^b
Spain	2.8	2.6
France	3.2	2.8
Italy	5.2	^b
Netherlands	2.9	^b
United Kingdom	6.5	2.7
Argentina	7.3	7.7
Brazil	10.5	6.9
Ecuador	^b	4.4
Iran	^b	6.0
Venezuela	^b	4.5
Others	21.0	22.7
Total	100.0	100.0

^a Only those countries whose exports or imports averaged 2.5% or more of the value of Chile's total exports or imports over the period 1975-1979 considered.

^b Amount below 2.5%.

Table 3

CHILE: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE
INDEXES FOR EXPORTS AND IMPORTS

(1980 = 100)

Annual and quarterly averages	Exports		Imports	
	(1) ^a	(2) ^b	(3) ^a	(4) ^b
1970	133.5	80.2	132.9	79.6
1971	124.4	66.9	120.4	65.2
1972	131.3	60.0	125.4	57.2
1973	148.2	74.1	137.4	68.7
1974	126.5	108.7	122.4	105.1
1975	135.7	142.6	131.1	137.8
1976	116.8	120.3	115.2	118.6
1977	113.8	100.2	110.9	97.6
1978	133.3	113.5	127.0	108.1
1979	118.6	114.5	114.2	110.2
I	131.5	116.5	124.4	110.2
II	122.6	114.7	118.1	110.5
III	116.0	118.3	111.6	113.9
IV	109.7	109.8	107.0	107.2
1980	100.0	100.0	100.0	100.0
I	107.5	104.9	107.3	104.7
II	101.5	101.2	101.9	101.5
III	98.5	100.5	98.0	99.9
IV	93.8	94.1	94.2	94.6
1981	88.5	81.4	93.1	85.6
I	92.2	89.0	94.9	91.6
II	87.6	81.9	92.2	86.1
III	85.1	77.5	91.3	83.2
IV	90.3	78.8	95.2	83.1

^a These indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1A). The products are added together to give the effective real exchange rate indexes. In calculating these indexes for Chile, the wholesale price index for domestic products was used.

^b A procedure similar to that described in footnote ^a was employed, except that the calculations were based on table 1B and the following prices indexes: 1971-1973 - corrected consumer price index of J. Yáñez; 1974-1978 - corrected consumer price index of R. Cortázar and J. Marshall; 1979-1981 - consumer price index of the National Statistical Institute (INE).

Table 1

ECUADOR: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a

(1980 = 100)

Annual averages	Ecuadorian sucres per:					
	US dollar	Canadian dollar	Japanese yen	Deutsch-mark	Italian lira	
1970	134.31	178.37	100.16	99.07		107.10
1971	128.09	171.06	94.52	101.12		103.35
1972	124.08	167.40	101.40	108.03		106.13
1973	124.00	158.87	115.89	121.99		109.81
1974	119.67	143.75	114.89	109.21		112.39
1975	113.41	134.53	101.02	105.69		105.35
1976	107.07	131.60	95.82	97.09		92.39
1977	100.55	115.85	95.36	96.67		89.77
1978	97.13	104.50	106.26	102.85		90.72
1979	99.09	104.93	99.26	106.53		97.02
1980	100.00	100.00	100.00	100.00		100.00
1981	93.48	97.11	89.67	73.13		80.76
	Dutch guilder	Chilean peso	Colombian peso	Panamanian balboa		Peruvian sol
1970	88.56	108.93	103.73	166.01		178.67
1971	91.29	202.02	97.85	156.49		173.16
1972	99.43	168.06	98.25	152.66		170.56
1973	108.54	159.12	102.71	144.30		161.52
1974	100.41	99.93	97.84	136.74		154.05
1975	102.35	69.88	92.58	125.08		141.32
1976	96.35	79.48	93.24	117.45		115.23
1977	97.71	91.13	99.81	108.62		79.32
1978	105.50	83.24	97.55	101.49		83.05
1979	105.04	87.57	105.26	99.32		100.64
1980	100.00	100.00	100.00	100.00		100.00
1981	72.84	102.65	91.74	92.19		97.17

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative prices indexes. For Ecuador, the wholesale price index was used.

Table 2

ECUADOR: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Ecuador	Imports from each country as a percentage of total imports of Ecuador
United States	40.0	36.7
Canada	1.7	2.0
Japan	1.3	14.6
Federal Republic of Germany	3.9	8.8
Italy	1.8	4.5
Netherlands	2.4	1.1
Chile	6.7	1.5
Colombia	4.2	3.0
Panama	10.6	0.2
Peru	5.5	2.0
Others	31.9	25.6
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 2.0% or more of the value of Ecuador's total exports or imports over the period 1975-1979 were considered.

Table 3

**ECUADOR: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES
FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual averages	Exports	Imports
1970	134.6	121.8
1971	137.3	119.0
1972	132.1	118.6
1973	131.1	122.9
1974	120.7	117.1
1975	111.5	109.0
1976	105.2	102.4
1977	99.0	98.0
1978	96.2	98.9
1979	99.2	100.2
1980	100.0	100.0
1981	92.4	89.6

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1). The products are added together to give the effective real exchange rate indexes.

Table 1

JAMAICA: EVOLUTION OF REAL EXCHANGE RATE INDEXES*

(1980 = 100)

Annual and quarterly averages	Jamaica dollars per:				
	US dollar	Canadian dollar	Japanese yen	Deutsch- mark	Norwegian krone
1970	99.32	124.94	72.84	73.29	74.13
1971	96.37	124.81	72.10	75.89	73.80
1972	94.22	124.94	75.28	81.92	75.97
1973	100.95	126.00	92.42	99.04	87.98
1974	96.45	114.93	91.72	88.00	87.94
1975	89.81	104.27	80.47	83.54	86.30
1976	85.71	105.49	77.10	77.67	81.48
1977	98.70	114.62	93.27	94.74	96.48
1978	106.95	117.00	116.72	113.10	103.62
1979	110.60	114.30	110.68	118.50	106.69
1980	100.00	100.00	100.00	100.00	100.00
1981	96.71	97.24	92.51	75.54	84.40
I	97.18	95.96	100.60	82.13	90.20
II	98.46	97.45	93.61	75.84	85.52
III	96.36	96.40	87.65	69.76	79.92
IV	95.04	99.12	88.62	75.47	82.70
	Jamaica dollars per:				Venezuelan bolivar
	Pound sterling	Netherlands Antilles guilder	Trinidad and Tobago dollar		
1970	69.06	94.83	85.07	86.50	
1971	72.38	91.51	84.36	83.07	
1972	74.25	92.89	88.22	81.75	
1973	75.32	95.11	94.24	84.83	
1974	67.02	91.36	88.19	80.06	
1975	67.14	89.99	83.16	77.95	
1976	57.96	86.46	74.61	76.71	
1977	70.75	98.89	91.99	93.50	
1978	84.64	107.51	101.87	101.08	
1979	97.41	109.99	107.36	102.56	
1980	100.00	100.00	100.00	100.00	
1981	86.56	99.44	101.45	101.98	
I	96.26	99.39	100.36	98.98	
II	89.94	100.29	100.88	102.62	
III	78.42	99.06	101.22	104.10	
IV	81.31	99.11	103.23	102.25	

* Corresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Jamaica, the consumer price index was used.

Table 2

JAMAICA: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Jamaica	Imports from each country as a percentage of total imports of Jamaica
United States	39.8	35.7
Canada	6.8	5.3
Japan	^b	3.0
Federal Republic of Germany	^b	2.6
Norway	9.0	^b
United Kingdom	21.0	10.6
Netherlands Antilles	^b	6.6
Trinidad and Tobago	3.4	3.4
Venezuela	^b	15.7
Others	20.0	17.1
Total	100.0	100.0

^a Only those countries whose exports or imports averaged 2.5% or more of the value of Jamaica's total exports or imports over the period 1975-1979 were considered.

^b Amount under 2.5%.

Table 3

JAMAICA: EVOLUTION OF EFFECTIVE NOMINAL AND REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS

(1980 = 100)

Annual and quarterly averages	Effective nominal exchange rate index for:		Effective real exchange rate index for:	
	Exports ^a	Imports ^a	Exports ^b	Imports ^b
1970	46.4	45.7	90.1	92.0
1971	46.0	45.2	89.4	90.1
1972	45.6	45.2	89.3	89.9
1973	52.1	51.6	94.5	95.2
1974	51.6	51.0	89.0	89.6
1975	50.9	50.5	84.4	84.8
1976	48.3	49.3	79.1	80.7
1977	57.6	56.7	92.3	94.6
1978	79.4	81.1	101.4	104.0
1979	96.6	98.2	106.9	107.6
1980	100.0	100.0	100.0	100.0
1981	94.8	97.8	92.9	96.0
I	98.9	99.8	96.1	97.2
II	95.5	98.1	94.8	97.5
III	92.1	96.1	90.0	94.8
IV	93.1	96.9	90.8	94.7

^a These indexes were obtained by multiplying the weightings of exports or imports (table 2) by the nominal exchange rate indexes. The products are added together to give the effective nominal exchange rate indexes.

^b A similar procedure to that described in footnote ^a was employed, except that tables 1 and 2 were used.

Table 1
MEXICO: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a
(1980 = 100)

Annual and quarterly averages	Mexican pesos per:					
	US dollar	Canadian dollar	Japanese yen	Deutsch- mark	Spanish peseta	French franc
1970	110.11	138.52	82.16	81.26	84.43	81.66
1971	109.56	141.88	80.74	86.26	86.60	83.21
1972	111.38	147.70	90.90	96.85	97.08	94.01
1973	108.73	135.71	101.50	106.64	101.95	98.70
1974	105.50	125.72	101.33	96.26	99.25	84.87
1975	104.35	121.16	92.89	97.07	101.50	96.30
1976	110.14	135.56	98.50	99.82	101.36	95.51
1977	121.19	140.75	115.03	116.31	108.46	105.39
1978	113.87	124.57	124.63	120.41	106.66	109.07
1979	108.48	112.11	108.72	116.24	114.29	108.42
1980	100.00	100.00	100.00	100.00	100.00	100.00
1981	93.41	93.91	89.65	72.96	76.19	75.50
I	95.65	94.46	99.23	80.84	83.71	83.84
II	94.67	93.71	90.49	72.91	76.76	75.03
III	93.44	93.49	85.27	67.64	72.26	71.27
IV	90.55	94.44	85.22	71.90	73.70	73.31
	Italian lira	Swiss franc	Pound sterling	Israeli shekel	Brazilian cruzeiro	Venezuelan bolívar
1970	87.57	74.05	76.57	108.53	124.53	95.94
1971	88.40	77.72	82.29	106.37	124.96	94.42
1972	94.89	84.81	87.79	103.41	128.64	96.62
1973	95.99	95.82	81.13	106.27	125.75	91.38
1974	98.98	94.77	73.32	122.61	119.56	87.57
1975	96.65	100.20	78.01	110.06	115.02	90.56
1976	94.76	103.26	74.49	116.32	126.63	98.58
1977	108.31	111.35	86.88	127.47	141.12	114.83
1978	106.16	128.57	90.12	101.83	132.42	107.63
1979	105.99	119.45	95.55	105.98	117.21	100.61
1980	100.00	100.00	100.00	100.00	100.00	100.00
1981	75.35	77.19	83.61	85.51	100.94	98.51
I	83.88	81.96	94.75	92.48	107.23	97.43
II	74.92	74.87	86.48	86.77	104.61	98.67
III	71.03	71.87	76.05	82.41	99.58	100.95
IV	72.85	81.38	77.47	82.28	94.67	97.41

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Mexico, the wholesale price index was used.

Table 2

MEXICO: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1976-1980)

Country	Exports to each country as a percentage of total exports of Mexico	Imports from each country as a percentage of total imports of Mexico
United States	65.5	63.5
Canada	1.1	2.0
Japan	3.5	6.0
Federal Republic of Germany	2.0	6.0
Spain	4.6	1.8
France	1.2	3.0
Italy	1.1	2.0
Switzerland	^b	1.3
United Kingdom	^b	2.4
Israel	2.8	^b
Brazil	2.5	2.1
Venezuela	1.1	^b
Others	14.6	9.9
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 1% or more of the value of Mexico's total exports or imports over the period 1976-1980 were considered.

^bAmount below 1%.

Table 3

MEXICO: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS^a

(1980 = 100)

Annual and quarterly averages	Exports	Imports
1970	106.8	103.9
1971	106.5	104.2
1972	109.5	108.0
1973	108.3	107.4
1974	105.4	103.4
1975	103.9	102.5
1976	109.4	107.6
1977	120.7	119.2
1978	114.1	114.8
1979	109.1	109.1
1980	100.0	100.0
1981	91.4	90.2
I	94.7	94.0
II	92.6	91.2
III	90.7	88.9
IV	88.5	87.4

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1). The products are added together to give the effective real exchange rate indexes.

Table 1A
PARAGUAY: EVOLUTION OF REAL EXCHANGE RATE INDEXES^{a b}
 (1980 = 100)

Annual averages	Paraguayan guaraníes per:					
	US dollar	Japanese yen	Deutsch-march	French franc	Italian lira	Dutch guilder
1970	190.15	141.89	140.33	141.02	151.49	125.51
1971	174.28	128.52	137.20	132.36	140.76	123.77
1972	153.70	125.51	133.64	129.73	131.14	122.78
1973	125.97	117.57	123.55	114.34	111.42	110.32
1974	114.68	110.10	104.63	92.25	107.71	96.29
1975	108.79	96.85	101.19	100.39	101.03	98.18
1976	112.56	100.68	102.00	97.60	97.05	101.06
1977	110.58	104.91	106.13	96.16	98.78	107.28
1978	105.70	115.64	111.78	101.24	98.69	112.24
1979	94.18	94.34	100.91	94.13	92.22	99.91
1980	100.00	100.00	100.00	100.00	100.00	100.00
1981	97.18	93.24	75.91	78.55	77.77	75.78
	Pound sterling	Swiss franc	Argentine peso	Brazilian cruzeiro	Uruguayan peso *	Algerian dinar
1970	132.23	127.87	107.11	215.06	130.14	18.07
1971	132.94	123.63	109.06	198.77	134.54	19.10
1972	121.14	117.03	91.73	177.51	99.02	22.26
1973	93.98	111.02	87.00	145.68	99.44	27.52
1974	79.69	103.01	84.72	129.96	97.83	57.29
1975	81.33	104.46	52.14	119.91	77.40	52.27
1976	76.12	105.52	80.80	129.41	78.08	53.75
1977	79.27	101.60	64.09	128.77	77.64	54.80
1978	83.65	119.34	71.57	122.91	79.32	49.94
1979	82.95	103.70	85.40	101.71	87.64	60.50
1980	100.00	100.00	100.00	100.00	100.00	100.00
1981	86.99	80.33	77.86	*102.24	91.57	84.11

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Paraguay, the wholesale price index was used.

^bPrepared on the basis of and exchange rate of 126 guaraníes per US dollar for the entire period.

Table 1B

PARAGUAY: EVOLUTION OF REAL EXCHANGE RATE INDEXES^{a, b}

(1980 = 100)

Annual averages	Paraguayan guaraníes per:					
	US dollar	Japanese yen	Deutsch-march	French franc	Italian lira	Dutch guildler
1973	124.11	115.83	121.72	112.65	109.78	108.68
1974	117.23	112.55	106.96	94.30	110.13	98.43
1975	115.24	102.59	107.19	106.34	107.01	103.99
1976	113.40	101.42	102.76	98.33	97.76	101.81
1977	108.95	103.34	104.56	94.74	97.30	105.69
1978	111.18	121.65	117.57	106.49	103.77	118.06
1979	96.27	96.43	103.16	96.22	94.25	102.13
1980	100.00	100.00	100.00	100.00	100.00	100.00
1981	110.15	105.66	86.03	89.02	88.18	85.89
	Pound sterling	Swiss franc	Argentine peso	Brazilian cruzeiro	Uruguayan peso	Algerian dinar
1973	92.59	109.37	85.71	143.52	97.97	27.12
1974	81.46	105.30	86.61	132.85	100.01	58.56
1975	86.15	110.64	55.23	127.01	81.99	55.37
1976	76.68	106.30	81.39	130.37	78.66	54.15
1977	78.10	100.10	63.15	126.87	76.49	53.99
1978	87.99	125.53	75.28	129.29	83.43	52.53
1979	84.80	106.00	87.29	103.97	89.59	61.84
1980	100.00	100.00	100.00	100.00	100.00	100.00
1981	98.59	91.04	88.42	115.88	103.78	95.32

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Paraguay, the wholesale price index was used.

^bPrepared on the basis of the floating free market exchange rate, from data supplied by the Central Bank of Paraguay.

Table 2
PARAGUAY: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Paraguay	Imports from each country as a percentage of total imports of Paraguay
United States	9.8	11.5
Japan	5.4	7.4
Federal Republic of Germany	13.0	8.1
France	3.4	^b
Italy	4.0	^b
Netherlands	13.1	^b
United Kingdom	4.9	7.2
Switzerland	8.2	^b
Argentina	14.9	17.4
Brazil	6.9	20.6
Uruguay	3.7	3.4
Algeria	^b	11.1
Others	12.7	13.3
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 2.5% or more of the value of Paraguay's total exports or imports over the period 1975-1979 were considered.

^bAmount below 2.5%.

Table 3
**PARAGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE
INDEXES FOR EXPORTS AND IMPORTS**

(1980 = 100)

Annual averages	Effective real exchange rate index for:					
	Exports			Imports		
	(1) ^a	(2) ^b	(3) ^c	(1) ^a	(2) ^b	(3) ^c
1970	142.5			141.4		
1971	137.2			134.8		
1972	126.1			121.0		
1973	112.2	120.4	115.2	105.6	126.6	115.6
1974	101.3	112.9	105.5	100.1	119.1	109.3
1975	92.6	110.1	99.0	87.6	108.7	97.6
1976	99.0	107.6	102.2	96.3	115.5	105.5
1977	97.5	105.0	100.2	93.6	109.2	101.1
1978	102.2	112.0	105.8	94.3	115.0	104.2
1979	95.0	97.6	95.9	89.3	98.9	93.9
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	83.6	99.1	89.3	89.4	108.2	98.4

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1A). The products are added together to give the effective real exchange rate indexes. These indexes were prepared on the basis of the official exchange rate of 126 guaraníes per US dollar.

^bThese indexes correspond to a weighted average of the real exchange rate indexes for Paraguay with respect to Argentina, Brazil, the United States, Japan, Italy, France and the Federal Republic of Germany, calculated on the basis of their relative shares in non-registered trade flows with this country. In calculating these indexes, the floating free market exchange rate was used (table 1B).

^cCorresponds to a weighted average of columns (1) and (2) on the basis of the effective share of the main trading partners of Paraguay in its exports and imports (registered and non-registered).

Table A

PERU: EVOLUTION OF NOMINAL EXCHANGE RATES

Annual averages	Peruvian soles per:							
	US dollar	Canadian dollar	Japanese yen	Deutsch-mark	Belgian Franc	French franc	Italian lira	
1970	38.70	37.0619	0.1081	10.6129	0.7795	7.0005	0.0617	
1971	38.70	38.3244	0.1113	11.1143	0.7974	7.0213	0.0626	
1972	38.70	39.0949	0.1277	12.1370	0.8792	7.6720	0.0664	
1973	38.70	38.6961	0.1424	14.4803	0.9929	8.6888	0.0664	
1974	38.70	39.5706	0.1325	14.9548	0.9935	8.0459	0.0595	
1975	40.80	40.1180	0.1375	16.5833	1.1093	9.5185	0.0625	
1976	57.43	58.2454	0.1937	22.8078	1.4876	12.0156	0.0690	
1977	83.81	78.8058	0.3121	36.0908	2.3383	17.0574	0.0950	
1978	156.34	137.0562	0.7429	77.8553	4.9644	34.6437	0.1841	
1979	224.55	191.6937	1.0247	122.5108	7.6589	52.7794	0.2703	
1980	288.65	246.8571	1.2730	158.7996	9.8707	68.3034	0.3370	
1981	426.59	355.8178	1.9344	188.7566	11.4888	78.4952	0.3753	
	Dutch guilder	Pound sterling	Argentine peso	Brazilian cruzeiro	Chilean Peso	Ecuadorian sucre	Venezuelan bolivar	
1970	10.7007	92.7168	10.1842	8.4240	3225.0000	1.8751	8.6033	
1971	11.0745	94.5748	8.4130	7.3185	3225.0000	1.5480	8.5987	
1972	12.0580	96.6533	4.7195	6.5217	1935.0000	1.5480	8.7947	
1973	13.8432	94.8065	4.1170	6.3173	348.6486	1.5480	8.9900	
1974	14.3952	90.4628	4.3483	5.6996	46.5144	1.5480	9.0326	
1975	16.1329	90.2655	1.1148	5.0203	8.3079	1.6320	9.5216	
1976	21.7217	103.1986	0.4102	5.3809	4.3994	2.2972	13.3873	
1977	34.1482	146.1887	0.2056	5.9255	3.8929	3.3524	19.5248	
1978	72.2592	299.7891	0.1965	8.6519	4.9387	6.2536	36.4217	
1979	111.9392	475.5400	0.1705	8.3336	6.0288	8.9820	52.3122	
1980	145.1889	670.8111	0.1571	5.4758	7.4013	11.5460	67.2452	
1981	170.9780	865.1186	0.0969	4.5808	10.9382	17.0636	99.3803	

Table B

PERU: EVOLUTION OF NOMINAL EXCHANGE RATE INDEXES

(1980 = 100)

Annual averages	Peruvian soles per:						
	US dollar	Canadian dollar	Japanese yen	Deutsch-mark	Belgian franc	French franc	Italian lira
1970	13.407	15.013	8.491	6.683	7.897	10.249	18.308
1971	13.407	15.524	8.743	6.998	8.078	10.279	18.575
1972	13.407	15.837	10.031	7.643	8.907	11.232	19.703
1973	13.407	15.675	11.186	9.118	10.059	12.720	19.703
1974	13.407	16.029	10.408	9.417	10.065	11.779	17.655
1975	14.134	16.251	10.801	10.442	11.238	13.935	18.546
1976	19.896	23.594	15.216	14.362	15.070	17.591	20.474
1977	29.035	31.923	24.516	22.727	23.689	24.973	28.189
1978	54.162	55.520	58.358	49.014	50.294	50.720	54.658
1979	77.793	77.653	80.494	77.148	77.592	77.272	80.207
1980	100.000	100.000	100.000	100.000	100.000	100.000	100.000
1981	147.788	144.139	151.956	118.864	116.393	114.921	111.365
	Dutch guilder	Pound sterling	Argentine peso	Brazilian cruzeiro	Chilean peso	Ecuadorian sucre	Venezuelan bolívar
1970	7.370	13.821	6482.622	153.840	43573.426	16.240	12.793
1971	7.627	14.098	5355.187	133.651	43573.426	13.407	12.787
1972	8.305	14.408	3004.137	119.100	26144.055	13.407	13.078
1973	9.534	14.133	2620.623	115.367	4710.640	13.407	13.369
1974	9.914	13.485	2767.854	104.087	628.462	13.407	13.432
1975	11.111	13.456	709.611	91.681	112.249	14.134	14.159
1976	14.961	15.384	261.107	98.266	59.440	19.896	19.908
1977	23.519	21.792	130.872	108.212	52.597	29.035	29.035
1978	49.769	44.690	125.079	158.002	66.727	54.162	54.162
1979	77.099	70.890	108.529	152.189	81.456	77.793	77.793
1980	100.000	100.000	100.000	100.000	100.000	100.000	100.000
1981	117.762	128.966	61.680	83.655	147.787	147.788	147.787

Table C

PERU: EVOLUTION OF RELATIVE PRICE INDEXES^{ab}

(1980 = 100)

Annual averages	Peruvian wholesale price index divided by price indexes of:						
	US WPI	Canada CPI	Japon WPI ^c	Germany CPI	Belgium WPI ^c	France CPI	Italy WPI
1970	16.142	14.367	13.698	10.902	11.335	16.639	27.672
1971	16.690	14.925	14.751	11.066	11.890	16.848	28.629
1972	16.713	14.887	15.307	10.956	11.951	16.587	28.762
1973	16.170	15.146	14.457	11.212	12.190	16.902	26.856
1974	15.507	15.559	12.539	11.938	11.547	16.938	21.742
1975	17.453	17.282	14.976	13.862	13.635	18.646	24.657
1976	23.207	22.362	19.838	18.487	18.096	23.664	27.702
1977	31.045	29.392	27.635	25.319	24.997	30.706	33.738
1978	48.418	45.369	47.680	41.433	41.846	47.339	52.352
1979	72.966	70.475	75.367	67.531	68.314	72.517	76.841
1980	100.000	100.000	100.000	100.000	100.000	100.000	100.000
1981	161.463	156.615	173.055	166.262	164.300	155.344	151.982
	Netherlands CPI	United Kingdom CPI	Argentina WPI	Brazil WPI	Chile WPI ^c	Ecuador WPI	Venezuela WPI ^c
1970	13.442	23.932	13855.941	163.674	86682.698	21.826	17.680
1971	13.369	23.368	10652.833	145.732	81032.958	21.499	18.472
1972	12.959	22.788	6274.405	128.520	48428.550	20.859	18.794
1973	13.131	22.848	4576.234	120.406	8936.556	20.190	19.189
1974	13.657	22.445	4333.272	106.244	990.954	18.443	18.717
1975	15.203	22.225	1828.153	102.701	207.943	19.896	20.146
1976	19.436	26.535	424.314	99.702	88.708	23.714	25.946
1977	25.923	32.507	241.499	99.363	68.933	31.129	32.765
1978	41.897	50.481	165.082	121.444	79.871	44.822	51.223
1979	68.165	75.489	112.248	132.114	89.561	68.653	78.677
1980	100.000	100.000	100.000	100.000	100.000	100.000	100.000
1981	164.977	157.406	84.095	84.574	159.887	154.849	151.618

^aWholesale price index = WPI; consumer price index = CPI.^bThe data on the WPI for Peru were supplied by the National Statistical Institute of that country.^cWPI for domestic products.

Table D

PERU: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a

(1980 = 100)

Annual averages	Peruvian soles per:							
	US dollar	Canadian dollar	Japanese yen	Deutsch-mark	Belgian franc	French franc	Italian lira	
1970	83.06	104.50	61.99	61.30	69.67	61.59	66.16	
1971	80.33	104.02	59.27	63.24	67.94	61.01	64.88	
1972	80.22	106.38	65.53	69.76	74.53	67.71	68.50	
1973	82.91	103.49	77.37	81.33	82.52	75.26	73.36	
1974	86.46	103.02	83.01	78.88	87.16	69.54	81.20	
1975	80.99	94.03	72.12	75.33	82.42	74.74	75.22	
1976	85.73	105.51	76.70	77.69	83.28	74.34	73.91	
1977	93.52	108.61	88.72	89.76	94.77	81.33	83.55	
1978	111.86	122.38	122.39	118.30	120.19	107.14	104.41	
1979	106.61	110.18	106.80	114.24	113.58	106.56	104.38	
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
1981	91.53	92.03	87.81	71.49	70.84	73.98	73.27	
	Dutch guilder	Pound sterling	Argentine peso	Brazilian cruzeiro	Chilean peso	Ecuadorian sucre	Venezuelan bolívar	
1970	54.83	57.75	46.79	93.99	50.27	74.41	72.36	
1971	57.05	60.33	50.27	91.71	53.77	62.36	69.22	
1972	64.09	63.23	47.88	92.67	53.98	64.28	69.59	
1973	72.61	61.86	57.27	95.81	52.71	66.40	69.67	
1974	72.60	60.08	63.87	97.97	63.42	72.69	71.76	
1975	73.09	60.54	38.82	89.27	53.98	71.04	70.28	
1976	76.98	57.98	61.54	98.56	67.01	83.90	76.73	
1977	90.73	67.04	54.19	108.91	76.30	93.27	88.61	
1978	118.79	88.53	75.77	130.10	83.54	120.84	105.74	
1979	113.11	93.91	96.69	115.20	90.95	113.31	98.88	
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
1981	71.38	81.93	73.35	98.91	92.43	95.44	97.47	

^aCorresponds to the quotient of the nominal exchange rate indexes (table B) divided by the relative price indexes (table C).

Table E
PERU: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average 1975-1979)

Country	Exports to each country as a percentage of total exports of Peru	Imports from each country as a percentage of total imports of Peru
United States	31.3	31.7
Canada	^b	3.0
Japan	12.5	8.5
Federal Republic of Germany	5.9	8.7
Belgium	2.8	^b
France	^b	2.9
Italy	3.7	2.5
Netherlands	2.6	2.9
United Kingdom	3.6	3.5
Argentina	^b	2.5
Brazil	3.0	3.3
Chile	2.5	^b
Ecuador	^b	5.2
Venezuela	^b	4.7
Others	32.1	20.6
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 2.5% or more of the value of Peru's total exports or imports over the period 1975-1979 were considered. Excludes China and Poland.

^bValue less than 2.5%.

Table F
**PERU: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE
 INDEXES FOR EXPORTS AND IMPORTS^a**

(1980 = 100)

Annual averages	Exports	Imports
1970	72.7	73.9
1971	71.2	71.9
1972	73.9	74.2
1973	79.2	78.9
1974	82.7	81.5
1975	76.6	76.1
1976	80.7	81.5
1977	90.4	90.3
1978	113.1	112.8
1979	106.9	107.3
1980	100.0	100.0
1981	86.4	87.0

^aThese indexes obtained by multiplying the weighting of exports or imports given in table E by the real exchange rate indexes (table D). The products are added together to give the effective real exchange rate indexes.

Table 1
URUGUAY: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a
(1980 = 100)

Annual averages	Uruguayan pesos per:						
	US dollars	Japanese Yen	Deutsch-mark	Spanish peseta	French franc	Italian lira	Dutch guilder
1970	146.11	109.35	107.95	112.41	108.33	116.76	96.41
1971	130.17	89.88	102.56	104.09	98.91	99.98	92.44
1972	155.10	129.61	134.87	135.78	130.94	137.05	123.91
1973	126.76	117.61	124.29	118.70	115.08	112.05	110.99
1974	117.20	113.56	106.94	110.36	94.27	111.86	98.41
1975	140.55	124.38	130.74	136.52	129.71	129.65	126.84
1976	144.15	128.39	130.64	132.47	125.00	124.85	129.43
1977	142.41	135.17	136.68	127.32	123.84	127.53	138.16
1978	133.26	145.78	140.93	124.79	127.64	124.04	141.51
1979	107.45	107.54	115.14	113.22	107.40	104.80	114.00
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1981	105.02	100.76	82.03	85.65	84.88	84.35	81.90
	Pound sterling	Argentine peso	Brazilian cruzeiro	Venezuelan bolívar	Iraqi dinar	Kuwaiti dinar	Nigerian naira
1970	101.57	82.14	165.29	127.41	14.18	12.62	14.39
1971	97.80	81.27	148.67	112.21	15.60	14.19	17.02
1972	122.25	92.43	179.17	134.48	21.27	18.53	22.57
1973	94.57	87.32	146.47	106.53	22.50	20.65	23.55
1974	81.45	86.42	132.78	97.28	65.39	63.79	54.22
1975	105.07	67.20	154.90	121.96	76.66	71.48	64.16
1976	97.48	103.47	165.68	129.02	80.36	73.82	67.12
1977	102.09	82.69	165.79	134.94	82.16	77.05	68.28
1978	105.46	90.14	154.94	125.96	71.11	68.88	58.15
1979	94.65	96.98	116.09	99.66	75.32	74.28	64.91
1980	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1981	94.01	85.19	113.43	111.84	112.73	109.83	93.03

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Uruguay, the wholesale price index for domestic product was used.

Table 2

URUGUAY: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Uruguay	Imports from each country as a percentage of total imports of Uruguay
United States	12.5	9.5
Japan	^b	2.6
Federal Republic of Germany	13.1	7.7
Spain	2.6	^b
France	2.6	^b
Italy	4.2	2.5
Netherlands	7.3	^b
United Kingdom	3.9	4.0
Argentina	7.6	12.9
Brazil	18.1	13.7
Venezuela	^b	4.3
Iraq	^b	8.2
Kuwait	^b	6.5
Nigeria	^b	5.0
Others	28.1	23.1
Total	100.0	100.0

^aOnly those countries whose exports or imports average 2.5% or more of the value of Uruguay's total exports or imports over the period 1975-1979 were considered.

^bAmount below 2.5%.

Table 3

URUGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS^a

(1980 = 100)

Annual averages	Exports	Imports
1970	125.5	95.5
1971	115.2	88.1
1972	143.2	108.0
1973	122.2	93.0
1974	110.8	96.3
1975	130.2	108.4
1976	136.5	117.6
1977	136.2	115.9
1978	133.8	112.0
1979	109.9	97.9
1980	100.0	100.0
1981	95.3	100.4

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1). The products are added together to give the effective real exchange rate indexes.

Table 1

VENEZUELA: EVOLUTION OF REAL EXCHANGE RATE INDEXES^a

(1980 = 100)

Annual and quarterly averages	Venezuelan bolívares per:				
	US dollar	Canadian dollar	Japanese yen	Deutsch- mark	Spanish peseta
1970	114.78	144.40	86.04	84.71	87.93
1971	116.06	150.27	85.47	91.36	91.68
1972	115.29	152.87	94.20	100.23	100.47
1973	119.00	148.54	110.96	116.72	111.52
1974	120.48	143.56	116.11	109.93	113.30
1975	115.23	133.79	102.49	107.19	111.97
1976	111.73	137.51	100.33	101.25	102.72
1977	105.54	122.57	100.37	101.30	94.38
1978	105.79	115.74	115.95	111.88	99.05
1979	107.83	111.43	108.25	115.54	113.47
1980	100.00	100.00	100.00	100.00	100.00
1981	94.82	95.35	91.28	74.06	77.29
I	98.18	96.95	102.05	82.98	85.81
II	95.94	94.97	91.79	73.89	77.77
III	92.57	92.61	84.56	67.01	71.51
IV	92.95	96.94	87.59	73.80	75.63
	French franc	Italian lira	Pound sterling	Netherlands Antilles guilder	Brasilian cruzeiro
1970	85.12	92.01	79.81	109.59	129.90
1971	88.14	94.21	87.15	110.20	132.44
1972	97.31	98.02	90.85	113.65	133.23
1973	108.01	105.75	88.77	112.12	137.71
1974	96.92	113.65	83.72	114.12	136.63
1975	106.34	107.86	86.14	115.46	127.10
1976	96.88	97.41	75.56	112.71	128.53
1977	91.78	95.18	75.65	105.75	122.99
1978	101.33	99.81	83.72	106.36	123.08
1979	107.76	106.49	94.97	107.24	116.56
1980	100.00	100.00	100.00	100.00	100.00
1981	76.64	77.06	84.88	97.50	102.51
I	86.06	86.42	97.25	100.42	110.07
II	76.05	76.58	87.64	97.74	106.20
III	70.59	69.91	75.33	95.16	98.62
IV	75.25	75.11	79.52	96.93	97.38

^aCorresponds to the quotient of the nominal exchange rate indexes divided by the relative price indexes. For Venezuela, the wholesale price index for domestic products was used.

Table 2

VENEZUELA: BREAKDOWN OF TRADE, BY MAIN TRADING PARTNERS^a

(Average for the period 1975-1979)

Country	Exports to each country as a percentage of total exports of Venezuela	Imports from each country as a percentage of total imports of Venezuela
United States	39.4	43.5
Canada	11.6	3.3
Japan	^b	9.2
Federal Republic of Germany	^b	9.2
Spain	^b	2.9
France	^b	2.8
Italy	2.0	5.2
United Kingdom	2.2	3.2
Netherlands Antilles	21.4	^b
Brazil	^b	2.3
Others	23.4	18.4
Total	100.0	100.0

^aOnly those countries whose exports or imports averaged 2% or more of the value of Venezuela's total exports or imports over the period 1975-1979 were considered.

^bAmount below 2%.

Table 3

VENEZUELA: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS^a

(1980 = 100)

Annual and quarterly averages	Exports	Imports
1970	116.2	105.0
1971	118.2	107.3
1972	119.4	110.0
1973	120.3	116.9
1974	121.0	117.2
1975	117.1	112.0
1976	114.5	107.6
1977	107.0	103.0
1978	106.7	106.9
1979	107.8	108.8
1980	100.0	100.0
1981	94.9	89.6
I	98.3	95.5
II	95.6	90.3
III	92.2	85.3
IV	93.8	87.6

^aThese indexes were obtained by multiplying the weightings of exports or imports (table 2) by the real exchange rate indexes (table 1). The products are added together to give the effective real exchange rate indexes.

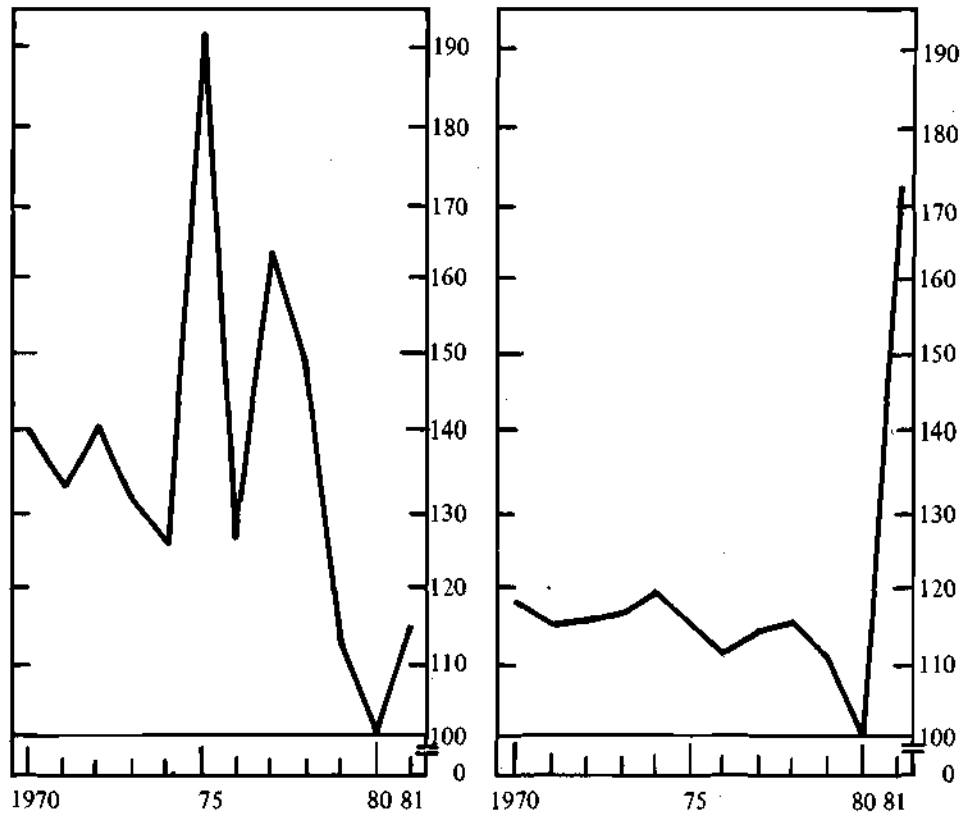
Figure 1

**EVOLUTION OF EFFECTIVE REAL EXCHANGE
RATE INDEXES FOR EXPORTS**

ARGENTINA^a

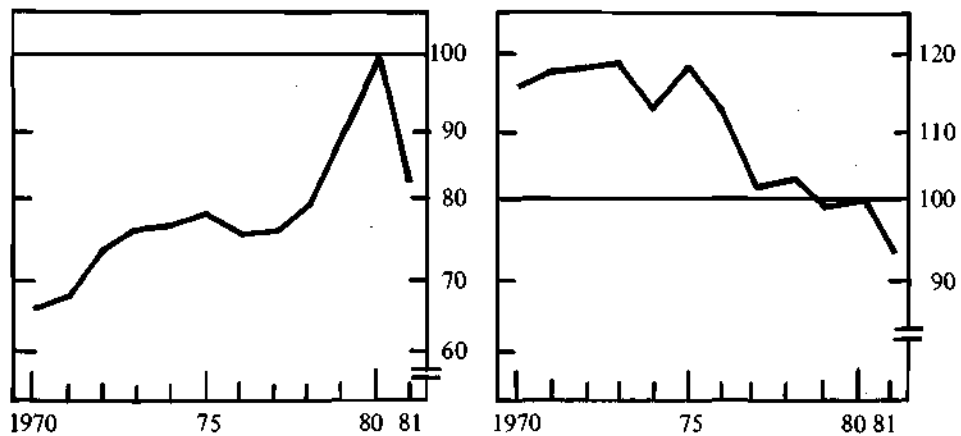
(1980 = 100)

COSTA RICA^a



BRAZIL^b

COLOMBIA^a

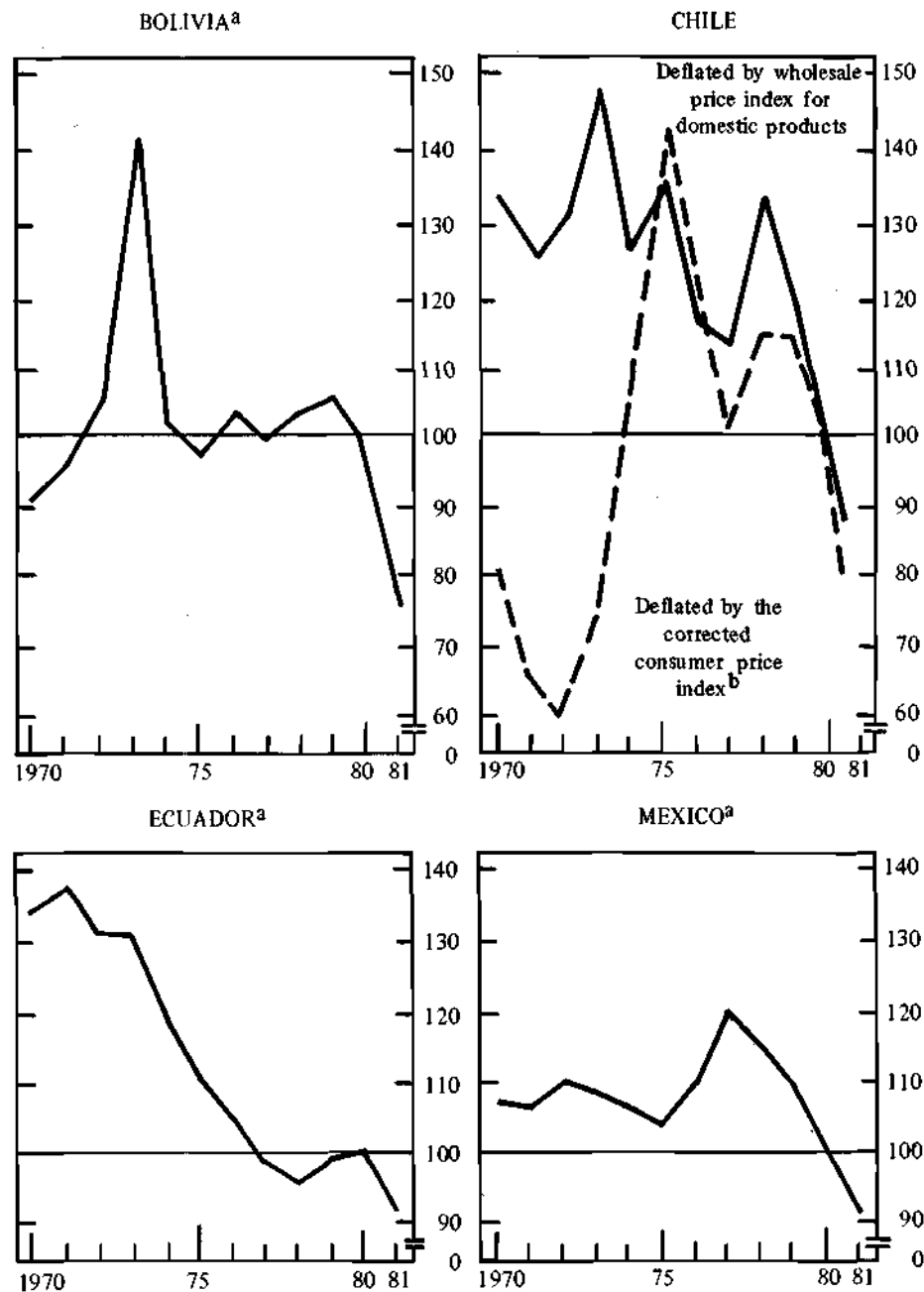


Source: Table 3 of the section corresponding to each country.

^aCalculated on the basis of the wholesale price index.

^bCalculated on the basis of the general price index (domestic availability).

Figure 2
EVOLUTION OF EFFECTIVE REAL EXCHANGE
RATE INDEXES FOR EXPORTS
(1980 = 100)



Source: Table 3 of the section corresponding to each country.

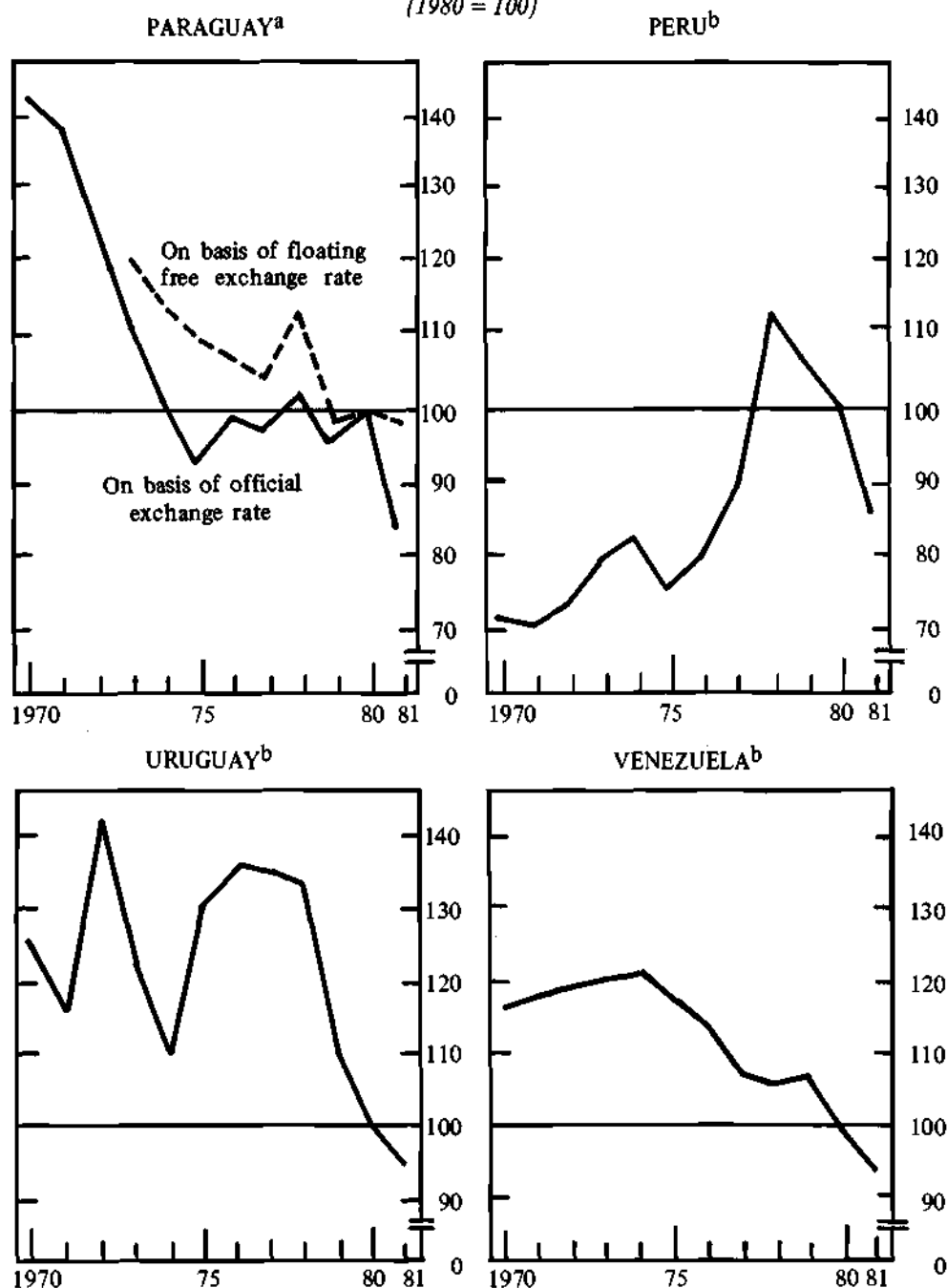
^aCalculated on the basis of the wholesale price index.

^bCalculated on the basis of the corrected consumer price indexes prepared by J. Yáñez (1971-1973) and R. Cortázar and J. Marshall (1974-1978), and the consumer price index of the National Statistical Institute (INE) (1979-1981).

Figure 3

EVOLUTION OF EFFECTIVE REAL EXCHANGE
RATE INDEXES FOR EXPORTS

(1980 = 100)



Source: Table 3 of the section corresponding to each country (table F in the case of Peru).

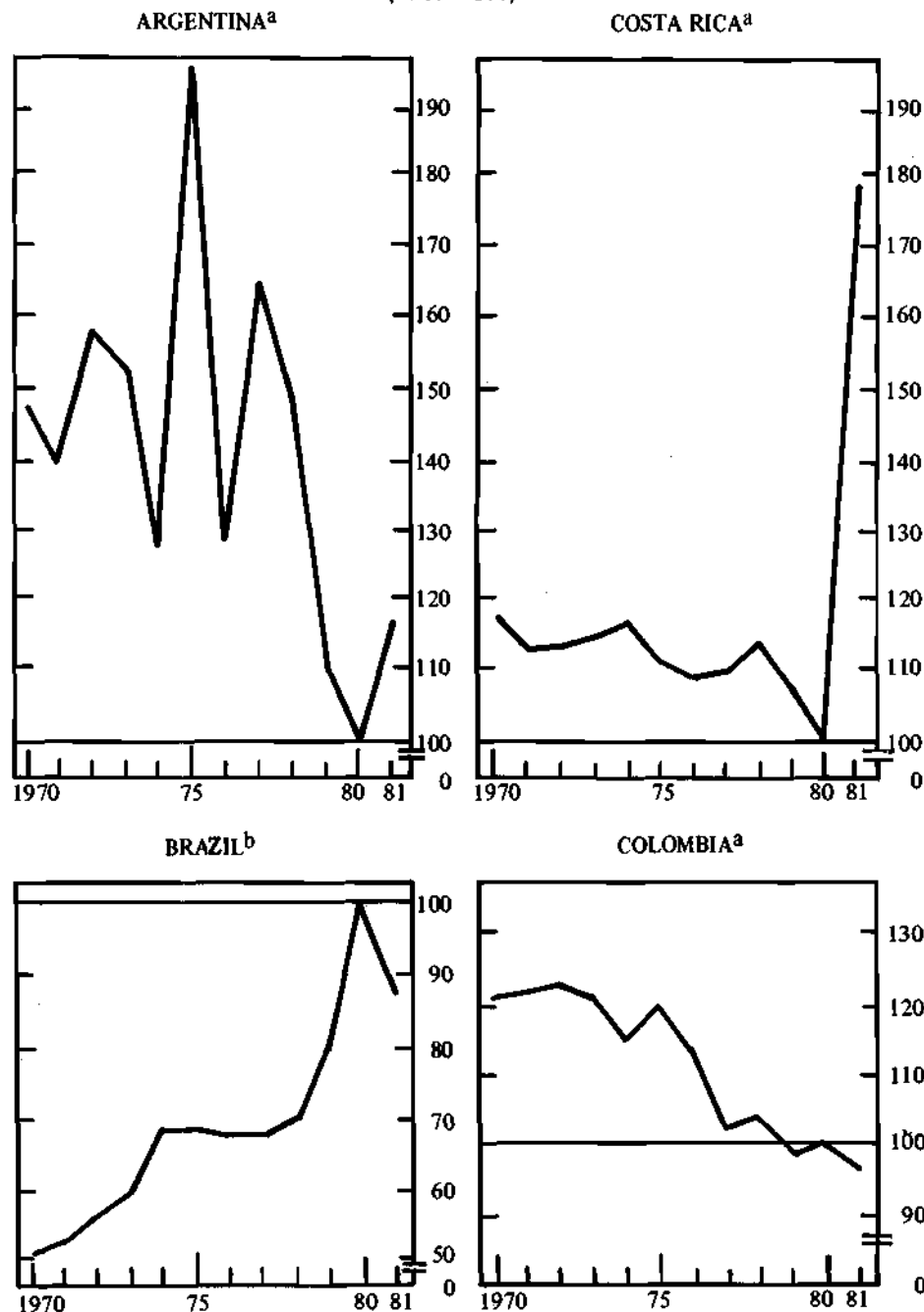
^aCalculated on the basis of the wholesale price index.

^bCalculated on the basis of the wholesale price index for domestic products.

Figure 4

EVOLUTION OF EFFECTIVE REAL EXCHANGE
RATE INDEXES FOR IMPORTS

(1980 = 100)



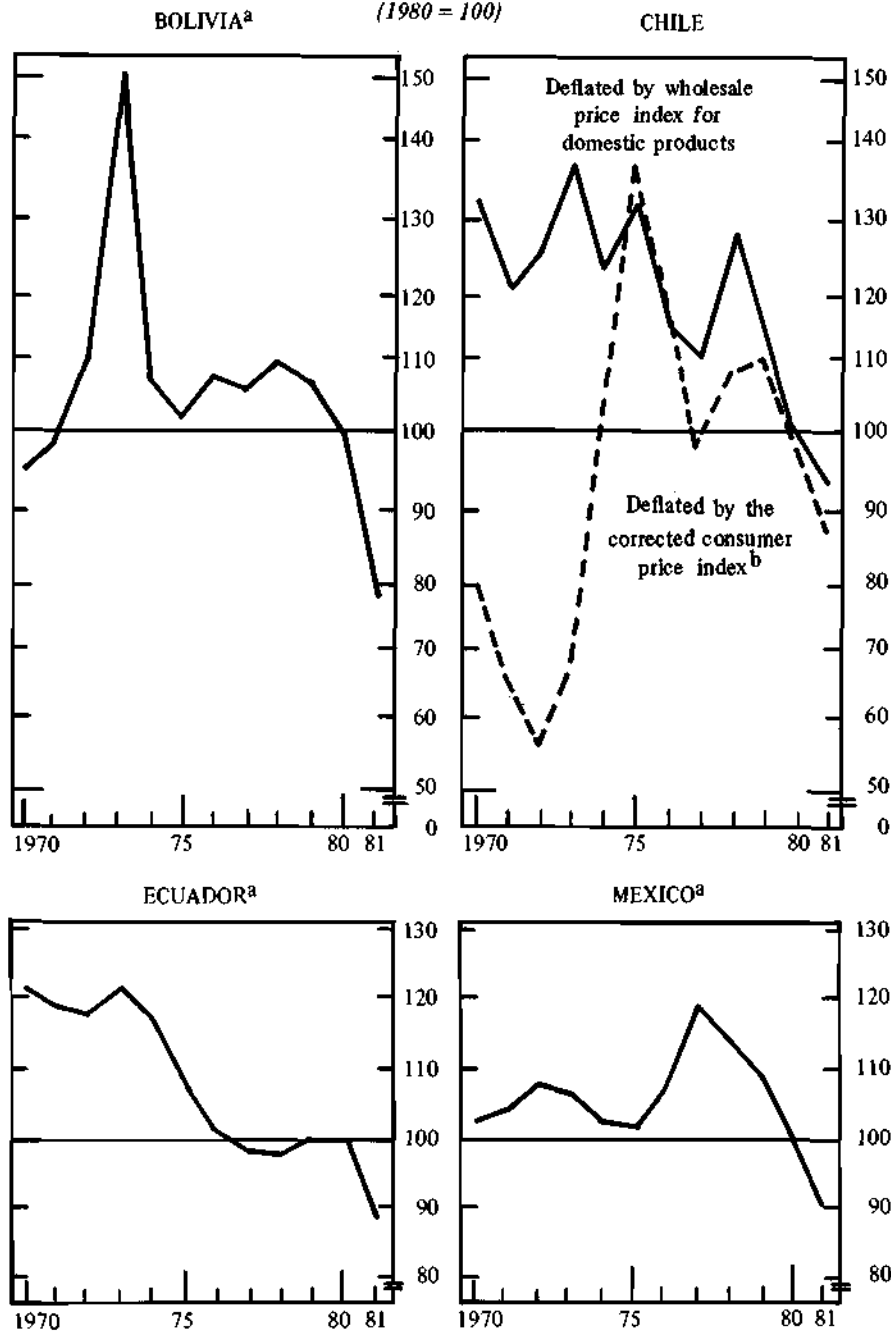
Source: Table 3 of the section corresponding to each country.

^aCalculated on the basis of the wholesale price index.

^bCalculated on the basis of the general price index (domestic availability).

Figure 5

**EVOLUTION OF EFFECTIVE REAL EXCHANGE
RATE INDEXES FOR IMPORTS**
(1980 = 100)



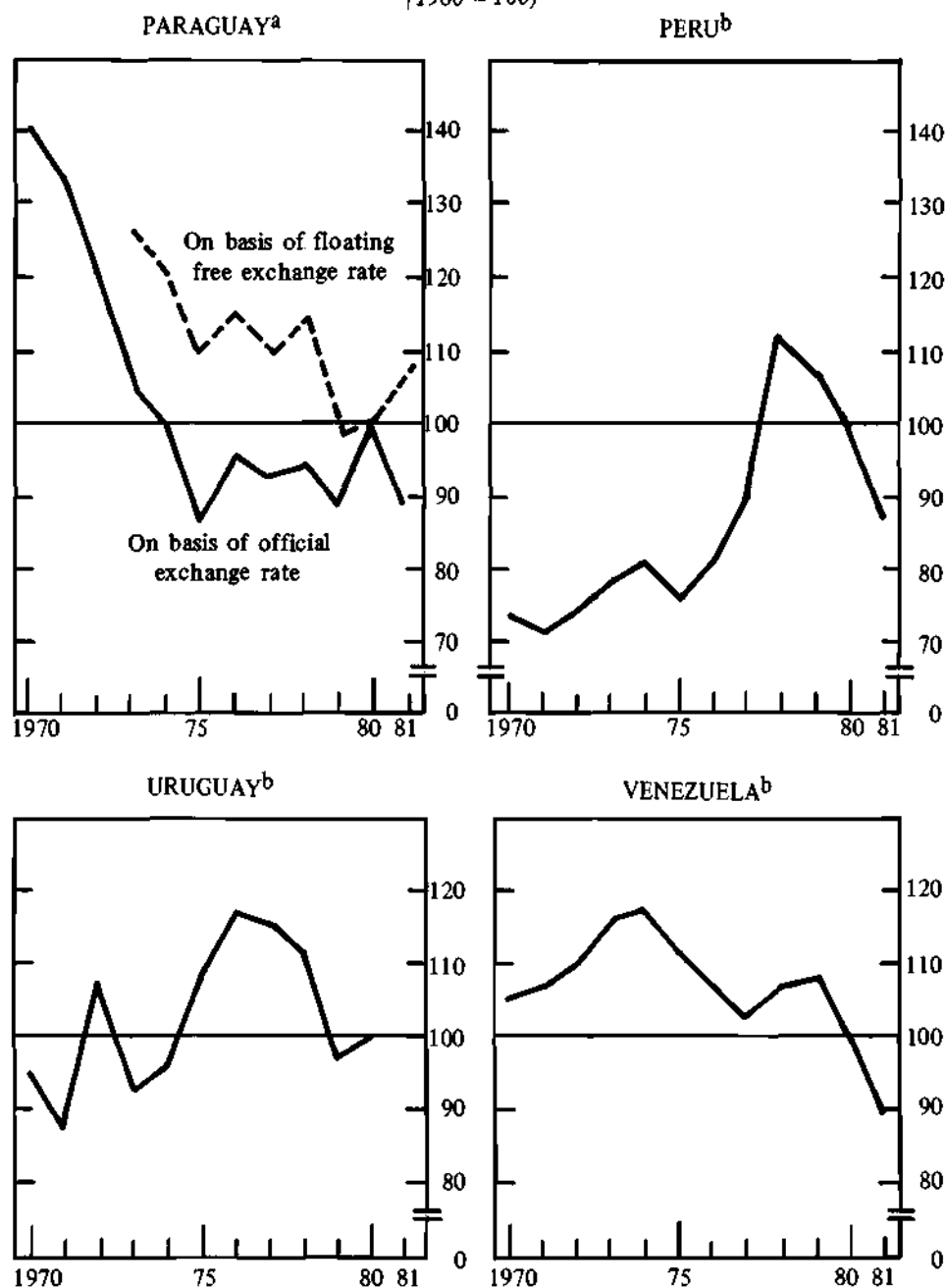
Source: Table 3 of the section corresponding to each country.

^aCalculated on the basis of the wholesale price index.

^bCalculated on the basis of the corrected consumer price indexes prepared by J. Yáñez (1971-1973) and R. Cortázar and J. Marshall (1974-1978), and the consumer price index of the National Statistical Institute (INE) (1979-1981).

Figure 6
EVOLUTION OF EFFECTIVE REAL EXCHANGE
RATE INDEXES FOR IMPORTS

(1980 = 100)



Source: Table 3 of the section corresponding to each country (table F in the case of Peru).

^aCalculated on the basis of the wholesale price index.

^bCalculated on the basis of the wholesale price index for domestic products.

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